HARBOUR CENTRE DEVELOPMENT LIMITED

Stock Code : 51

ANNUAL REPORT 2016

The Murray, an iconic urban chic hotel, is scheduled to open in late 2017.

CORPORATE PROFILE

Harbour Centre Development Limited (stock code: 51) is a listed subsidiary of The Wharf (Holdings) Limited (stock code: 4), with property and hotel development and investment in Hong Kong and the Mainland as its primary business.

Flagship assets in Hong Kong include Marco Polo Hongkong Hotel in Harbour City, Tsim Sha Tsui, and The Murray, a 336-room Niccolo hotel being converted from the iconic Murray Building in Central. Marco Polo Hongkong Hotel has long been a core operating asset while The Murray is targeted for opening in late 2017.

In the Mainland, the Group owns 80% of Suzhou International Finance Square, an investment property under development which will comprise Grade A offices, luxury apartments and a premium boutique hotel.

As at the end of 2016, the Group's attributable development land bank had declined to about 0.7 million square metres in Changzhou, Chongqing, Shanghai and Suzhou.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman

Mr Stephen T H Ng

Non-executive Directors

Hon Frankie C M Yick, *JP*
Mr Kevin C Y Hui

Independent Non-executive Directors

Dr Joseph M K Chow, *OBE, JP*
Mr H M V de Lacy Staunton
Hon Andrew K Y Leung, *GBS, JP*
Mr Michael T P Sze
Mr Brian S K Tang

COMPANY SECRETARY

Mr Kevin C Y Hui, *FCCA, CPA*

AUDITORS

KPMG, Certified Public Accountants

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

REGISTRARS

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
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CHAIRMAN'S STATEMENT

The Group started to invest in Development Properties ("DP") in China in 2007. Since it started to bear fruit in 2012, this segment has been dominating the Group's financial performance. Its share of Group core profit once ranged up to nearly 70%. However, against the backdrop of depletion of the land bank from the sale/presale of 93% (and sales recognition of 80%) of developable GFA up to the end of 2016, DP contribution to the Group will start to recede after 2017.

In 2016, DP recognition declined due to project timing, while soft markets overshadowed the performance of the Investment Properties ("IP") and Hotel segments. Group core profit decreased by 36% to HK$762 million (2015: HK$1,194 million) and core earnings per share by 36% to HK$1.08 (2015: HK$1.68). Total dividend per share for 2016 will decrease by 29% to 50 HK cents (2015: 70 HK cents).

Revaluation of the IP portfolio at year-end has resulted in a deficit of HK$70 million or 1% for the year. Group profit decreased by 44% to HK$692 million (2015: HK$1,231 million).

Net cash increased to HK$1,904 million by year-end. Net asset value was HK$22.33 per share, or HK$27.84 per share if the Group's hotels were restated at market value.

THE YEAR IN REVIEW

In Hong Kong, clouds loomed over the retail and hospitality sectors as the strong local currency and competition from neighbouring destinations continued to divert both visitors and locals. Total visitor arrivals and retail sales in 2016 decreased by 4.5% and 8.1% respectively. That continued to impact the local economy and hence the Group's IP and Hotel businesses.

In the Mainland, lower sales recognition reduced DP profit. At the same time, despite a more favourable market due to the government's loosening measures, contracted sales in 2016 fell to RMB3.4 billion (2015: RMB5.3 billion) on an attributable basis. New cooling measures were implemented towards the end of the year and will add uncertainties to selling conditions in 2017. On the hotel front, the performance of Marco Polo Changzhou, while still in pre-stabilisation mode, improved amidst difficult trading conditions.

OUTLOOK

2016 ended with a slew of geopolitical surprises. Global growth remained tepid with the nagging political and economic uncertainties. 2017 may be another year beset by unfavourable currency conditions, interest rate hikes and geopolitical threats. Plenty of political or geopolitical uncertainties including a new unorthodox U.S. presidency, the unfolding of Brexit, soaring protectionist sentiment and a series of general elections in Europe largely shape the outlook for 2017.

CHAIRMAN'S STATEMENT

Mainland China is also expected to face a tremendous challenge. Uncertainty in traditional export markets and a structural adjustment to a domestic consumption-led growth model may further rein in its economic growth pace. Rising trade tension and a possible trade war will pose a significant downside risk to China.

It is still too early to judge whether Hong Kong's retail and hospitality sectors are bottoming out. The Hong Kong government has been stepping up its promotional efforts to achieve a more balanced portfolio of inbound visitors to resuscitate the bruised tourism sector. However, a rapid recovery is unlikely in the near future. The Group will closely monitor the risks ahead and properly evaluate their implications to the Group's business.

While China DP continues to gear down, sales recognition is budgeted to rebound in 2017. However, the significant depletion of the project pipeline will reduce DP contribution after 2017.

In Hong Kong, The Murray, a 336-room Niccolo hotel converted from the iconic Murray Building in Central, has commenced to ramp up pre-opening expenses to prepare for opening in late 2017. Building and land costs will be depreciated over the life of the land lease. In China, Suzhou International Finance Square, comprising Grade A offices, luxury apartments and a premium boutique hotel with full scenery of the city, is targeted for opening by 2018.

Initial expenses for these new IP and Hotel projects will weigh on the Group's cashflow and profits in their early years. It will take time for them to reach maturity and stabilisation. Substantial net cash outflow is budgeted for 2017.

On behalf of all Shareholders and my fellow directors, I wish to express my deepest gratitude and appreciation to all customers, staff and business partners for their support over the years. Taking this opportunity, I also wish to pay special tribute to Mr H M V de Lacy Staunton, our Director for 16 years who is retiring at the coming Annual General Meeting and not standing for re-election, for his invaluable counsel and contributions to the Board.

Stephen T H Ng
Chairman

Hong Kong, 2 March 2017

FINANCIAL HIGHLIGHTS

	2016 HK$ Million	2015 HK$ Million	Change
Results			
Revenue	**3,558**	5,048	–30%
Operating profit	**969**	1,622	–40%
Core profit (Note a)	**762**	1,194	–36%
Profit attributable to equity shareholders	**692**	1,231	–44%
Total dividend for the year	**354**	496	–29%
Earnings per share			
Core profit (Note a)	**HK$1.08**	HK$1.68	–36%
Reported profit	**HK$0.98**	HK$1.74	–44%
Dividend per share			
First interim	**HK$0.14**	HK$0.14	–
Second interim	**HK$0.36**	HK$0.56	–36%
Total for the year	**HK$0.50**	HK$0.70	–29%
Financial Position			
Total assets	**28,114**	29,651	–5%
Total business assets (Note b)	**20,659**	20,707	–
Net cash	**1,904**	1,647	+16%
Shareholders' equity	**15,829**	16,185	–2%
Total equity	**16,546**	17,330	–5%
Number of issued shares (in million)	**709**	709	–
Net asset value per share	**HK$22.33**	HK$22.84	–2%
Net debt to total equity	**N/A**	N/A	N/A

Financial year	Profit to shareholders			Shareholders' equity		Earnings per share		
	Core profit HK$ Million	Reported profit HK$ Million	Total equity HK$ Million	Total HK$ Million	Per share HK$	Core profit HK$	Reported profit HK$	Dividends per share HK$
2007	503	638	5,945	5,748	18.24	1.60	2.03	0.29
2008	133	171	7,763	7,067	14.96	0.28	0.36	0.20
2009	304	535	9,877	9,175	12.95	0.48	0.84	0.20
2010	226	1,015	11,440	10,674	15.06	0.32	1.43	0.20
2011	336	1,096	12,279	11,463	16.17	0.47	1.55	0.24
2012	1,937	3,058	15,563	14,591	20.59	2.73	4.31	0.96
2013	1,464	1,276	16,447	15,381	21.70	2.07	1.80	0.78
2014	851	1,082	17,246	16,205	22.86	1.20	1.53	0.60
2015	1,194	1,231	17,330	16,185	22.84	1.68	1.74	0.70
2016	**762**	**692**	**16,546**	**15,829**	**22.33**	**1.08**	**0.98**	**0.50**

Notes:

(a) Core profit excludes changes in investment property revaluation.

(b) Business assets exclude unallocated corporate assets mainly comprising equity investments, deferred tax assets, derivative financial assets and bank deposits and cash.

(c) Ten-Year Financial Summary is detailed on page 116.

BUSINESS AND FINANCIAL REVIEW

BUSINESS REVIEW

Development Properties ("DP") in China has been dominating financial performance since 2012. Its share of Group core profit once ranged up to nearly 70%. However, 93% of developable GFA have been sold/pre-sold (and 80% recognised) up to the end of 2016. The land bank has not been replenished and depletion will continue. In parallel, performance of the recurrent Investment Properties ("IP") and Hotel segments was slowed by soft markets. As a result, Group core profit declined by 36% to HK$762 million (2015: HK$1,194 million).

Hong Kong

Investment Properties

Rental income for the Group's portfolio retreated amidst challenging trading conditions. This portfolio was independently revalued at year-end, and reported a net revaluation deficit of HK$70 million or 1% for the year.

Hotel

Weakened demand took its toll on the performance of Marco Polo Hongkong Hotel. The hotel has also become less competitive with age. Average room rate exhibited a decline while average occupancy was stable. Revenue decreased by 4% and operating profit by 9%.

The Murray, a 336-room sophisticated urban chic hotel in Central under conversion from the iconic Murray Building, has started to ramp up pre-opening expenses to prepare for opening in late 2017. Building and land costs will be depreciated over the life of the land lease. That may dilute the segment's results until the hotel reaches stabilisation in several years.

China

Development Properties

Lower sales recognition, principally from Suzhou Times City, trimmed contribution from subsidiaries. Contribution from joint venture/associate projects also declined resulting from reduced sales recognised for Shanghai South Station.

Attributable land bank (net of recognised sales) was reduced to about 0.7 million square metres. The U World in Chongqing and Changzhou Times Palace were completed in 2016. Full completion of Suzhou Times City and the 27%-owned Shanghai South Station project are scheduled for 2017 and 2022 respectively.

Notwithstanding a more positive market arising from the government's loosening measures, the Group's attributable interest in contracted sales dropped to RMB3.4 billion (2015: RMB5.3 billion), which in part was due to project launch schedule and depletion of land bank. 1,105 residential and retail units (total GFA: 161,400 square metres) were sold/pre-sold in 2016.

The net order book as at year-end was maintained at RMB5.0 billion for 2,010 residential and retail units (total GFA: 249,000 square metres).

Investment Properties

Suzhou International Finance Square ("IFS"), an iconic landmark prominently located in the new CBD overlooking Jinji Lake and adjacent to Xinghu Street MTR station (Line 1), is set to stand out in a soft market. The 299,000 square metres of Grade A offices, a premium boutique hotel, sky residences and luxury apartments are mainly due for completion in 2018.

Hotel

Performance of Marco Polo Changzhou is improving but still in pre-stabilisation mode. The hotel has been building its business through strategic expansion of its client base.

First revenue contribution from the 133-room luxury sky hotel at Suzhou IFS is poised to begin in early 2019 the earliest.

Outlook

Looking ahead, trading conditions are likely to be uncertain in 2017 but completion of pre-sold DP projects would be positive to Group results. However, DP contribution will substantially decrease after 2017 as the project pipeline will be mostly depleted. Initial expenses for the IP and Hotel projects under development will also put pressure on the Group's cashflow and profits in their early years. Substantial net cash outflow is budgeted for 2017.

FINANCIAL REVIEW

(I) Review of 2016 Final Results

Amid soft markets and volatile profit recognition for development projects, Group core profit decreased by 36% to HK$762 million (2015: HK$1,194 million).

Revenue and Operating Profit

IP revenue declined by 8% to HK$315 million (2015: HK$344 million) and operating profit by 8% to HK$283 million (2015: HK$309 million). The fall in retail turnover rent from Marco Polo Hongkong Hotel ("MP Hong Kong") was partially compensated by full year rental contribution from the Star House units which had been under renovation in 2015 to prepare for a new tenant.

Hotel revenue fell by 2% to HK$616 million (2015: HK$628 million) and operating profit by 6% to HK$130 million (2015: HK$138 million), partially due to lower room rate recorded by MP Hong Kong, although operating loss of Marco Polo Changzhou ("MP Changzhou") was narrowed.

DP revenue decreased by 37% to HK$2,482 million (2015: HK$3,930 million) and operating profit by 59% to HK$425 million (2015: HK$1,041 million), which was mainly attributable to lower recognition from Suzhou Times City. Inclusive of joint ventures and associates, DP core profit retreated by 52% to HK$343 million (2015: HK$719 million).

Operating profit from Investment and Others, comprising mainly interest and dividend income, fell by 1% to HK$145 million (2015: HK$146 million).

On consolidation, Group revenue decreased by 30% to HK$3,558 million (2015: HK$5,048 million) and operating profit by 40% to HK$969 million (2015: HK$1,622 million).

Contracted DP Sales

Inclusive of joint ventures and associates on an attributable basis, the Group contracted property sales totalling RMB3,355 million (2015: RMB5,264 million). The net order book at year end stood at RMB4,977 million (December 2015: RMB5,056 million) that is available for recognition in stages on completion of various DP projects.

Change in Fair Value of IP

The Group's completed IP were stated at fair value based on an independent valuation as at 31 December 2016, resulting in a revaluation deficit of HK$70 million (2015: surplus HK$37 million). IP under development were carried at cost less impairment, if any, and would not be stated at fair value until the earlier of their fair values first becoming reliably measurable or the dates of completion.

Other Net Income

Other net income decreased by HK$48 million to HK$31 million, mainly because a profit of HK$48 million from the sale of equity investments was recognised through other comprehensive income, following the adoption of the new accounting standard (HKFRS 9), against a profit of HK$33 million credited to income statement in 2015.

Finance Costs

Net finance costs amounted to HK$57 million (2015: HK$59 million) after interest capitalisation of HK$15 million for the Group's projects.

Share of Results after Tax of Joint Ventures and Associates

Joint venture profit was HK$176 million (2015: HK$95 million) with further recognition of The U World in Chongqing.

Associates recorded attributable profit HK$23 million from Shanghai South Station project (2015: HK$133 million) in the absence of phased completion.

Income Tax

Taxation charge for the year decreased by 38% to HK$310 million (2015: HK$502 million) following lower DP profit recognised for the year.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year amounted to HK$692 million (2015: HK$1,231 million), representing a decrease of 44%. Core profit, excluding IP revaluation differences, decreased by 36% to HK$762 million (2015: HK$1,194 million).

Earnings per share ("EPS") was reported at HK$0.98 (2015: HK$1.74) based on 708.8 million issued shares. Excluding IP revaluation differences, EPS was HK$1.08 (2015: HK$1.68).

Early Adoption of HKFRS 9 "Financial Instruments"

The Group has early adopted the complete version of HKFRS 9 "Financial Instruments" in its consolidated financial statements with effect from 1 January 2016. As a result, the investments in equity securities of HK$2,301 million that were previously classified as available-for-sale investments under HKAS 39 have been re-designated as equity investments measured at fair value through other comprehensive income. Based on this new standard, HK$48 million gain on disposal of equity securities in the year was recognised through other comprehensive income instead of the income statement as previously accounted for (2015: HK$33 million profit through the income statement).

(II) Review of Financial Position, Liquidity, Resources and Commitments

Shareholders' and Total Equity

As at 31 December 2016, shareholders' equity stood at HK$15,829 million (2015: HK$16,185 million), equivalent to HK$22.33 per share (2015: HK$22.84 per share), net of an exchange deficit of HK$405 million on translation of the Group's RMB5.3 billion of net assets and an attributable investment revaluation deficit of HK$151 million. Including non-controlling interests, the Group's total equity amounted to HK$16,546 million (2015: HK$17,330 million).

MP Hong Kong and MP Changzhou hotel properties are stated at cost less accumulated depreciation in accordance with prevailing Hong Kong Financial Reporting Standards ("HKFRSs"). Restating these hotel properties to independent valuation as at 31 December 2016 would give rise to an additional revaluation surplus totalling HK$3,903 million and increase the Group's shareholders' equity as at 31 December 2016 to HK$19,732 million, equivalent to HK$27.84 per share.

Assets and Liabilities

Group total assets decreased by 5% to HK$28,114 million (2015: HK$29,651 million). Total business assets, excluding bank deposits and cash, equity investments, deferred tax assets and other derivative financial assets, maintained at HK$20,659 million (2015: HK$20,707 million) mainly due to increase in hotel and IP under development offset by DP from sales recognition.

Geographically, business assets in the Mainland decreased by 8% to HK$9,245 million (2015: HK$10,002 million), representing 45% (2015: 48%) of the Group total.

IP

IP increased by 5% to HK$8,277 million (2015: HK$7,876 million), representing 40% (2015: 38%) of the Group total business assets. Hong Kong IP amounted to HK$5,344 million (2015: HK$5,414 million), comprising mainly MP Hong Kong's podium valued at HK$4,760 million. Mainland IP, mainly Suzhou IFS under development, was stated at book cost of HK$2,933 million (2015: HK$2,462 million).

Properties for Sale/Interests in Associates and Joint Ventures

Mainland DP decreased by 27% to HK$1,957 million (2015: HK$2,699 million) reflecting sales recognition at Suzhou Times City and Changzhou Times Palace. In addition, DP undertaken through associates and joint ventures amounted to HK$3,225 million (2015: HK$3,647 million).

Other Business Assets

Other major business assets included hotel properties at MP Hong Kong, The Murray, MP Changzhou and other property and equipment with book cost totalling HK$6,529 million (2015: HK$5,677 million).

Pre-sale Deposits and Proceeds

Pre-sale deposits and proceeds increased by 7% to HK$5,030 million (2015: HK$4,691 million), reflecting contracted sales to be recognised as revenue by stage in the future.

Net Cash and Gearing

Net cash increased to HK$1,904 million (2015: HK$1,647 million), consisting of HK$5,154 million in cash and HK$3,250 million in bank borrowings.

Finance and Availability of Facilities and Funds

As at 31 December 2016, available loan facilities amounted to HK$4,850 million, of which HK$3,250 million were utilised.

Debts were principally denominated in Hong Kong dollar ("HKD") and in floating rate. Further borrowings will be sourced to finance the property and hotel development projects.

The use of derivative financial instruments is strictly controlled. The majority of the derivative financial instruments entered into by the Group are primarily used for managing and hedging the Group's interest rate and currency exposures.

The Group continued to maintain a reasonable level of surplus cash denominated principally in HKD and RMB to facilitate business and investment activities. As at 31 December 2016, the Group also maintained a portfolio of equity investments mainly consisting of blue chip listed securities with an aggregate market value of HK$2,301 million (2015: HK$2,450 million), which is available for liquidation to meet needs if they arise. The performance of the portfolio was largely in line with the general market.

Net Cash Flows for Operating and Investing Activities

For the year under review, the Group generated a net cash inflow from operating activities of HK$2,792 million (2015: HK$3,056 million), mainly attributable to pre-sales proceeds net of construction cost payment for the Mainland development projects. For investing activities, the Group recorded a net cash outflow of HK$1,423 million (2015: HK$1,451 million), primarily for The Murray and Suzhou IFS projects.

Commitments to Capital and Development Expenditure

Major capital and development expenditure in the coming years totalled HK$7.8 billion. HK$3.3 billion of that was committed (HK$1.4 billion for The Murray and HK$1.9 billion for Mainland projects). Uncommitted expenditure of HK$4.5 billion is mainly for the existing Mainland DP projects to be incurred by stage in the coming years.

The above expenditures will be funded by internal financial resources, including cash currently on hand, as well as bank loans. Other available resources include equity investments that can be liquidated when in need.

(III) Human Resources

The Group had approximately 900 employees as at 31 December 2016. Employees are remunerated according to their job responsibilities and the market pay trend with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the Group's achievement and results.

BUSINESS AND FINANCIAL REVIEW

BUSINESS MODEL

Harbour Centre Development Limited is a listed subsidiary of The Wharf (Holdings) Limited ("Wharf"), with property and hotel development and investment in Hong Kong and the Mainland as its core business.

DP in the Mainland has been dominating financial performance since 2012. It accounted for 70% of Group revenue and 45% of core profit in 2016. However, 93% of developable GFA have already been sold/pre-sold (and 80% recognised) up to the end of 2016. The DP land bank has not been replenished and depletion will continue.

In Hong Kong, flagship assets include MP Hong Kong and The Murray. The former, strategically located in Harbour City in Canton Road, has long been a core operating asset. The latter, a prominent landmark building standing on a prime site in Central, is being converted into an urban chic hotel, with target opening in late 2017.

In the Mainland, MP Changzhou opened in 2014 and IP Suzhou International Finance Square is due for completion in 2018, which will comprise Grade A offices, luxury apartments, sky residences and a premium boutique hotel.

BUSINESS STRATEGY

The Group endeavours to generate return to shareholders through:

(a) Leveraging Wharf's core competencies in development and marketing to generate profits from DP business in the Mainland;

(b) Owning and operating prime hotels and IP through continuous product and service enhancement to maximise income and value; and

(c) Exercising prudent and disciplined financial management at all times.

REPORTING STANDARD AND SCOPE

Harbour Centre Development Limited ("HCDL" or the "Company") ESG Report is prepared according to the requirements detailed in Appendix 27 Environmental, Social and Governance Reporting Guide (the "Guide") issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The scope of this Report is restricted to our core operations in Hong Kong, namely Marco Polo Hongkong Hotel ("MP Hong Kong") with the aim of including The Murray and our Mainland China operations in future reports. This Report covers the financial year ended 31 December 2016 (the "reporting year") and addresses all the General Disclosures under each Aspect of the Guide. HCDL shall aim to collect data to address material Key Performance Indicators ("KPIs") in our next report.

1. Our Environment

Emissions

HCDL is keen to play its part in the global effort to reduce greenhouse gas emissions. We have taken our first step by joining the Carbon Audit Programme of the HKSAR Environmental Protection Department ("EPD").

The carbon audits have been scoped to MP Hong Kong and the latest emissions figures are available online on the Carbon Footprint Repository for Listed Companies in Hong Kong[1]. With the collection of more comprehensive data, we are looking to expand our reporting scope and implement solid emission reduction strategies.

Use of Resources

Given the service-oriented nature of MP Hong Kong, the use of resources primarily arises from maintaining a comfortable environment for our guests. Thus, the hotel aims to drive efficiency improvements in electricity and fuel consumption. For instance, guestroom lighting has been replaced by energy-efficient alternatives with longer life spans, namely T5 fluorescent tubes and LED light bulbs. Energy-saving protocols have also been implemented, such as the timely switch-off of air-conditioning and computer systems when not in use.

To reduce fuel use, the hotel shuts down the swimming pool steam boiler system in the summer, and trains our hotel vehicle drivers on eco-driving practices.

Environmental Mitigation

At MP Hong Kong, we actively seek to minimise our impacts on the environment and natural resources. An extensive paper recycling programme has been implemented throughout our operations, ensuring the efficient collection and handling of recyclable paper.

We recognise that there is a wealth of green opportunities at each of our operational functions, and is intent on seizing them for a sustainable future. For example, water consumption is reduced through our green programme for guestroom linens. We have placed green cards in our guestrooms, informing guests that the hotel will change towels and bedsheets upon request.

[1] *http://www.carbon-footprint.hk/PDF/CFR00051-15-1.pdf*

2. Our People

Employment

The invaluable contributions of our employees have driven continued success and prosperity at HCDL. MP Hong Kong has established clear policies to ensure the needs of our staff are satisfied. A Compensation and Benefits Policy is implemented so that our employees are offered competitive remuneration packages, and company coverage of both dental and medical insurance contributing to their health and wellbeing. Fair and transparent guidelines are also in place for working hours and leave arrangements.

The recruitment process at MP Hong Kong is grounded on principles of fairness and equality. Policies have been established to ensure all candidates are offered equal opportunities, regardless of their gender, race, age or any other demographic characteristics. The experience and expertise they can offer is of primary concern. Such anti-discrimination practices are also extended to the day-to-day workplace conduct to nurture a culture of inclusiveness and harmony.

Development and Training

The continuous development and growth of our staff is strategic for HCDL to respond and adapt to the ever-changing business landscape. Employees of MP Hong Kong at all levels are allocated set training hours to equip them with the latest knowledge relating to their work duties. More extensive training, such as management and leadership skills, are regularly organised for our staff in supervisory roles to facilitate informed and perceptive decision-making at all times.

In addition, MP Hong Kong staff is eligible to apply for Educational Sponsorships to pursue external professional courses.

Health and Safety

To provide a safe working environment and protect employees from occupational hazards, MP Hong Kong enforces a stringent Occupational Health and Safety Policy. Sound workplace measures are in place to ensure all risk-bearing activities are monitored and supervised.

Fire hazards particularly pose significant threats, and thus our staff are thoroughly briefed on our Fire Safety Guidelines. Newly joined employees also receive comprehensive orientation on the work safety procedures of MP Hong Kong. Our ceaseless efforts in workplace safety have brought about a considerable drop in work-related injuries.

Labour Standards

At HCDL, we have a number of policies to govern employment including Compensation and Benefits, Anti-discrimination, and Recruitment.

For the reporting year, we have complied with all relevant legislations in Hong Kong, including the Employment Ordinance (Cap 57), anti-discrimination legislations[2], the Personal Data (Privacy) Ordinance (Cap 486) and the Mandatory Provident Fund Schemes Ordinance (Cap 485) and there were no established cases against MP Hong Kong. In recognition of our efforts, MP Hong Kong was awarded the Caring Company Logo.

[2] *Sex Discrimination Ordinance (Cap 480), Disability Discrimination Ordinance (Cap 487), Family Status Discrimination Ordinance (Cap 527) and Race Discrimination Ordinance (Cap 602).*

3. Our Value Chain

Product Responsibility

At MP Hong Kong, delivering exceptional services hinges on executing responsible corporate practices. Our catering operations adhere to all relevant legislations, including but not limited to nutritional and food allergy labelling. The quality and hygiene of our cuisines are effectively managed under an extensive food safety manual. For example, a monthly food supplier inspection is conducted by the hygiene manager, chef and purchasing representative. We are continually pursuing the delivery of maximum value to our guests.

Protecting the data privacy[3] of our guests is also our utmost priority, and therefore strict policies governing its accessibility and usage. By upholding conscientious corporate practices, we endeavour to be accountable for our actions.

Supply Chain Management

MP Hong Kong recognises that progress in sustainable development can only be achieved when we work with our stakeholders. We take a proactive stance in prioritising suppliers who are concerned with, and address environmental and social risks.

Anti-corruption

The operations at HCDL are steered by the highest level of ethical business standards. At MP Hong Kong, the established set of policies does not tolerate any form of bribery, extortion, fraud or money laundering.

The Business Code of Conduct outlines expected professional conduct during business engagements, while our policy on insider dealings articulates what would constitute an act of malpractice. Comprehensive guidelines are also provided for staff to adhere to the Competition Ordinance (Cap 619). Whether it be our customers, shareholders, employees, or competitors, we strive to act in good faith.

4. Our Community

At HCDL, we believe the success of our business also depends on the strength of our community. Throughout the reporting year, MP Hong Kong was engaged in initiatives helping children with special needs, and youth from underprivileged backgrounds by collaborating with charities including Children's Cancer Foundation, Heep Hong Society and Project *WeCan* partner schools.

[3] *Personal Data (Privacy) Ordinance (Cap 486)*

(A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2016, all the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited were met by the Company, with one exception as regards Code Provision A.2.1 as explained under section (D) below.

(B) DIRECTORS' SECURITIES TRANSACTIONS

During the financial year ended 31 December 2016, the Company adopted its own set of code of conduct regarding directors' securities transactions (the "Company's Code") with terms thereof being no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors of the Company and all Directors have confirmed that they have complied with the required standard set out in the Model Code and/or the Company's Code during the financial year.

(C) BOARD OF DIRECTORS

(I) Composition of the Board and Directors' attendance records at Board meetings and annual general meeting

The Board has a balance of skills and experience and a balanced composition of executive and non-executive directors. The Board composition and attendance records of each Director at Board meetings and annual general meeting during the financial year ended 31 December 2016 are set out below:

Directors	Number of Meeting(s) (Attended/Held) Board Meetings	Annual General Meeting
Chairman		
Stephen T H Ng	5/5	1/1
Non-executive Directors		
Frankie C M Yick	5/5	1/1
Kevin C Y Hui	5/5	1/1
Independent Non-executive Directors		
Joseph M K Chow	5/5	1/1
H M V de Lacy Staunton	5/5	1/1
Andrew K Y Leung	5/5	1/1
Michael T P Sze	5/5	1/1
Brian S K Tang	5/5	1/1

Each Director has been appointed on the strength of his calibre, experience and stature, and his potential to contribute to the proper guidance of the Group and its businesses. Apart from formal meetings, matters requiring Board approval were arranged by means of circulation of written resolutions.

(II) Board Diversity

Under the Board Diversity Policy adopted by the Board, the Company recognises and embraces the benefits of having a diverse Board towards enhancement of overall performance. With a vision to achieving a sustainable and balanced development, the Company regards increasing diversity at the Board level as an essential element in achieving a diversity of perspectives and supporting the attainment of its strategic goals. Appointments of directors are made on merits while having due regard for the benefits of diversity of the Board.

At present, more than half of the directors on the Board are Independent Non-executive Directors ("INED(s)"). They represent diverse career experience in both international and local enterprises. They bring with them diverse professional backgrounds, spanning engineering, infrastructure, textile, financial and securities, banking, trustee services and entrepreneurship. They also hold or have held important public service positions in Hong Kong and China, covering business, industry and commerce, educations, regulatory and politics.

The board composition reflects various cultural and educational backgrounds, professional development, length of service, knowledge of the Company and a broad range of individual attributes, interests and values. The Board considers the current line-up has provided the Company with a good balance and diversity of skills and experience for the requirements of its business. The Board will continue to review its composition from time to time taking into consideration board diversity for the requirements and benefits of the Company's business.

(III) Operation of the Board

The Company is headed by an effective Board which makes decisions objectively in the interests of the Company. The Company's management has closely monitored changes to regulations that affect its corporate affairs and businesses, and changes to accounting standards, and adopted appropriate reporting format in its interim report, annual report and other related documents to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. Where these changes are pertinent to the Company or Directors' disclosure obligations, the Directors are either briefed during Board meetings or issued with regular updates and materials to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group. Newly appointed Directors receive briefings and orientation on their legal and other responsibilities as a Director and the role of the Board. The Company has also provided appropriate information in a timely manner to the Directors to enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

There is a clear division of responsibilities between the Board and the management. Decisions on important matters are specifically reserved to the Board while decisions on the Group's general operations are delegated to the management. Important matters include those affecting the Group's strategic policies, major investment and funding decisions and major commitments relating to the Group's operations.

(IV) Directors' Continuous Professional Development

The Company has arranged for Directors to attend training sessions which place emphasis on the roles, functions and duties of a listed company director.

According to the records of training maintained by the Company Secretary, during the financial year under review, all the current Directors pursued continuous professional development and relevant details are set out below:

Directors	Type of trainings *(See Remarks)*
Stephen T H Ng	A, B
Joseph M K Chow	A, B
H M V de Lacy Staunton	A, B
Kevin C Y Hui	A, B
Andrew K Y Leung	A, B
Michael T P Sze	A, B
Brian S K Tang	A, B
Frankie C M Yick	A, B

Remarks:
A: attending seminars and/or conferences and/or forums
B: reading journals, updates, articles and/or materials, etc

(D) CHAIRMAN AND CHIEF EXECUTIVE

Mr Stephen T H Ng serves as the Chairman and also as the *de facto* chief executive of the Company. This is a deviation from Code Provision A.2.1 of the CG Code with respect to the roles of chairman and chief executive to be performed by different individuals. Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be Chairman of the Company as well as to discharge the executive functions of chief executive. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with more than half of them being INEDs.

The Chairman is responsible for the Board, focuses on Group strategies and Board issues, ensures a cohesive working relationship between members of the Board and management, and also in his capacity as *de facto* chief executive, he directly has responsibilities in certain major business units of the Group.

(E) NON-EXECUTIVE DIRECTORS

Five out of Eight Directors are INEDs, a sufficient number to ensure their views to carry weight and implanting a strong independence element into the Board.

The Company has received written annual confirmation from each of the INEDs concerning their independence pursuant to Rule 3.13 of the Listing Rules, and considers that all INEDs are independent and meet the independence guidelines set out thereunder.

All those existing Directors who do not hold any executive office of the Company (including INEDs) have their respective terms of appointment coming to an end normally three years after their last re-election as Directors or, in the case of newly appointed Directors, at the next following general meeting. The re-election of any INED who has served on the Board for more than nine years is subject to (1) a separate resolution to be approved by Shareholders; and (2) further information to be sent out in the circular to Shareholders the reasons why the Board believes the relevant Director is still independent and should be re-elected.

(F) BOARD COMMITTEES

(I) Audit Committee

The Company has set up an Audit Committee with all its members appointed from the INEDs.

All Audit Committee members have sufficient experience in reviewing audited financial statements as aided by the auditors of the Group whenever required. In addition, Mr Michael T P Sze has the appropriate professional qualifications and/or experience in financial matters.

Three Audit Committee meetings were held during the financial year ended 31 December 2016. Attendance of Audit Committee members is set out below:

Members	Attendance/Number of Meetings
Michael T P Sze *(Chairman)*	3/3
Joseph M K Chow	3/3
Brian S K Tang	3/3

(i) The Audit Committee terms of reference are aligned with the provisions set out in the CG Code and the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of Audit Committee:

(A) Relationship with the Company's external auditors

(a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of their resignation or dismissal;

(b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences; and

(c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

(B) Review of financial information of the Company

(a) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgemental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

(b) regarding (B)(a) above:

(i) members of the Committee should liaise with the Board and Senior Management and the Committee must meet, at least twice a year, with the Company's external auditors; and

(ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, or for compliance function, or auditors (internal or external).

(C) Oversight of the Company's financial reporting system, and risk management and internal control systems

(a) to review the Company's risk management and internal control systems covering all controls; including financial, operational and compliance controls, with the support of the Risk Management and Internal Control Committee;

(b) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budgets of the Company's accounting, internal audit and financial reporting functions;

(c) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings and review the statements concerning risk management and internal control to be included in the annual report;

(d) to ensure co-ordination between the internal and external auditors, to review and approve the annual internal audit plan, to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company for it to carry out an analysis and independent appraisal of the adequacy and effectiveness of the Company's financial reporting system and risk management and internal control systems, and to review and monitor the effectiveness of the internal audit function;

(e) to review the Group's financial and accounting policies and practices;

(f) to review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;

(g) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;

(h) to report to the Board on the matters in the code provisions in the Listing Rules;

(i) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

(j) to act as the key representative body for overseeing the Company's relations with the external auditors; and

(k) to consider other topics, as defined by the Board.

(D) Oversight of the Company's corporate governance matters

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and Senior Management;

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

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to consider other topics, as defined by the Board.

(ii) The other work performed by Audit Committee for the financial year ended 31 December 2016 is summarised below:

(a) approval of the remuneration and the appointment and terms of engagement of the external auditors;

(b) review of the external auditors' independence and objectivity and the effectiveness of audit process in accordance with applicable standards;

(c) review of the half-year and annual financial statements before submission to the Board, with particular consideration of the points mentioned in paragraph (i)(B) above regarding the duties of Audit Committee;

(d) discussion with the external auditors before the audit commences, the nature and scope of the audit;

(e) review of the audit programme of the internal audit function;

(f) review of the Group's financial controls, internal control and risk management systems; and

(g) meeting with the external auditors without executive Board members present.

(II) Remuneration Committee

The Company has set up a Remuneration Committee consisting of Chairman of the Company and two INEDs.

One Remuneration Committee meeting was held during the financial year ended 31 December 2016. Attendance of Remuneration Committee members is set out below:

Members	Attendance/Number of Meeting
Michael T P Sze *(Chairman)*	1/1
Stephen T H Ng	1/1
Brian S K Tang	1/1

(i) The Remuneration Committee terms of reference are aligned with the provisions set out in the CG Code. Given below are the main duties of Remuneration Committee:

(a) to make recommendations to the Board on the Company's policy and structure for all Directors' and Senior Management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to review and approve the management's remuneration proposals by reference to the Board's corporate goals and objectives;

(c) either:

(i) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management; or

(ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and Senior Management.

This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(d) to make recommendations to the Board on the remuneration of non-executive Directors;

(e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(f) to review and approve compensation payable to executive Directors and Senior Management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

(h) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

(i) to advise Shareholders on how to vote with respect to any service contracts of Directors that require Shareholders' approval under the Listing Rules.

(ii) The work performed by Remuneration Committee, which has the delegated authority and responsibility, for the financial year ended 31 December 2016 is summarised below:

(a) review of the Company's policy and structure for all remuneration of Directors and Senior Management;

(b) consideration and approval of the emoluments for all Directors and Senior Management; and

(c) review of the level of fees for Directors and Audit Committee members.

The basis of determining the emoluments payable to its Directors and Senior Management by the Company is by reference to the level of emoluments normally paid by a listed company in Hong Kong to directors and senior executives of comparable calibre and job responsibilities so as to ensure a fair and competitive remuneration package as is fit and appropriate. The basis of determining the fee payable to each of the Directors of the Company, currently at the rate of HK$50,000 per annum, and the fee payable to each of those Directors who are also members of the Audit Committee of the Company, currently at the rate of HK$20,000 per annum, is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

(III) Nomination Committee

The Company has set up a Nomination Committee comprising 3 members, namely Chairman of the Company Mr Stephen T H Ng (chairman of the Committee) and two INEDs, namely Mr Michael T P Sze and Mr Brian S K Tang.

The Nomination Committee terms of reference are aligned with the provisions set out in the CG Code. Given below are the main duties of Nomination Committee:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of INEDs; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular Chairman of the Board and chief executive.

During the financial year ended 31 December 2016, no Nomination Committee meeting was held.

(IV) Corporate Governance Functions

While the Board is and remains to be principally responsible for the corporate governance functions of the Company, it has delegated the relevant duties to Audit Committee to ensure the proper performance of corporate governance functions of the Company. In this connection, the Audit Committee terms of reference include various duties relating to corporate governance matters which are set out in paragraph "(D) Oversight of the Company's corporate governance matters" on page 20 under sub-section "(I) Audit Committee" of section "(F) Board Committees" above.

(G) AUDITORS' REMUNERATION

For the financial year ended 31 December 2016, the external auditors of the Company received approximately HK$2,074,000 for audit services.

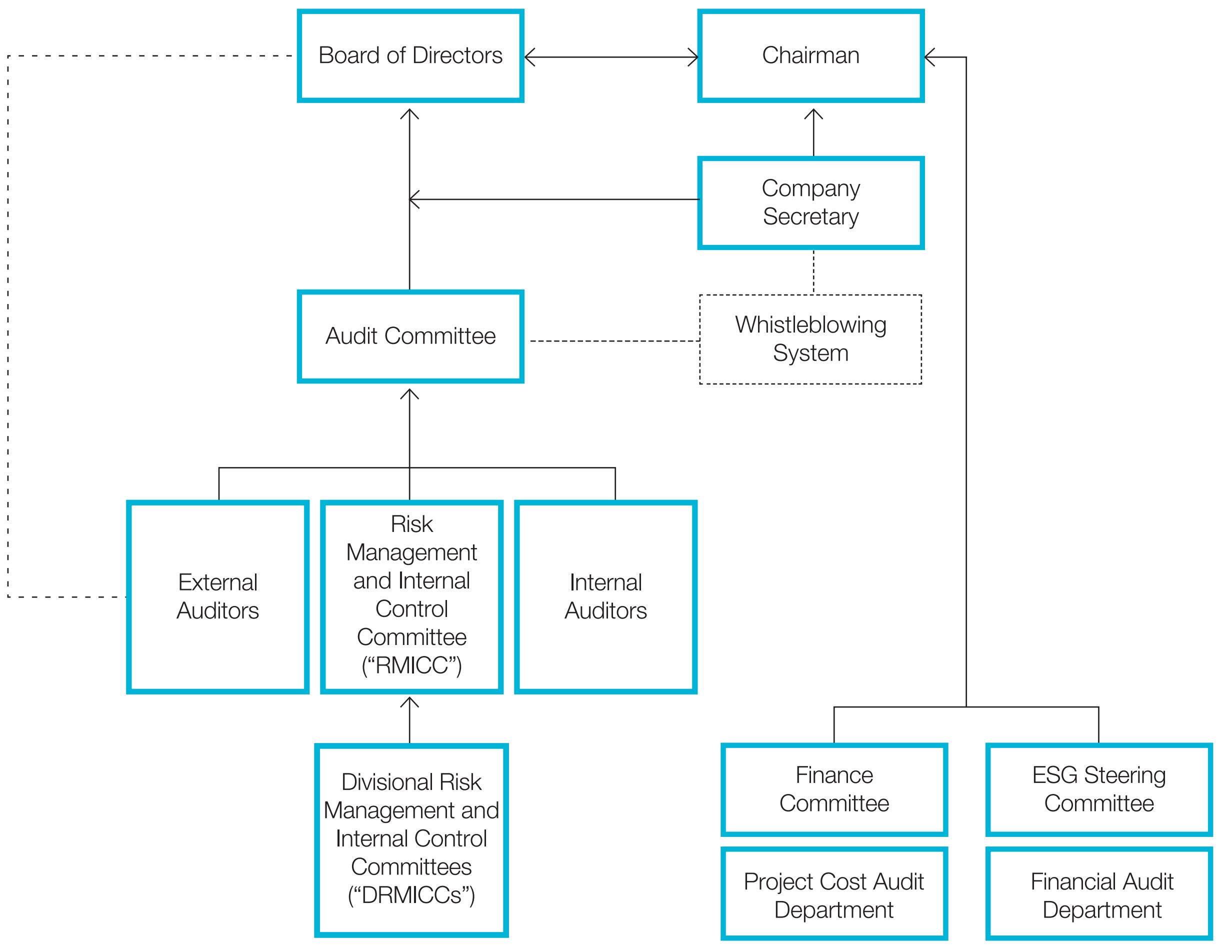
(H) RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

(I) Risk Governance Structure

The Board has overall responsibilities for the Group's risk management and internal control systems to safeguard the interests of the Company and its shareholders as a whole. To this end, the Board oversees and approves the Group's risk management and internal control strategies and policies, which are aimed at evaluating and determining the nature and extent of the risks that are compatible with the Group's strategic objectives and risk appetite, with main purpose for provision of reasonable assurance against material misstatement or loss rather than absolute elimination of the risk of failure to achieve business objectives.

Reporting to the Board, Audit Committee is delegated with the authority and responsibility for ongoing monitoring and evaluation of the effectiveness of the relevant systems, with the assistance of Risk Management and Internal Control Committee.

In adherence to its long standing principle for prudent management, the Group has put in place a robust and inclusive framework, on leverage of the resources of Wharf in internal audit and other corporate control functions, to manage risks at different business operations in diversified segments within the organisation, diagrammatically illustrated as below:



RMICC plays a central role in the ongoing management of risk management and internal control system of the Group with the objective of assisting Audit Committee in discharging of its oversight responsibility over risk management and internal control system of the Group. One of its major functions is to assist Audit Committee to conduct periodical reviews of the effectiveness of the risk management and internal control systems of the Group based on the procedure as further explained below.

DRMICCs are set up at the level of business units with composition of the respective key management staff together with those charged with the internal control functions. Acting as divisional advisory bodies, DRMICCs are entrusted with implementation of the Group's control policies and on-going assessment of control activities in the relevant business units.

(II) Practices and Processes

With diversified range of business activities, the Group is operating in dynamic environments with varying risk exposures according to different business segments. Risk management and internal controls within the Group are not just serial process but dynamic and integrated operations embedded in the day-to-day routines with the primary ownership vested on the respective business units under stewardship residing with the Board.

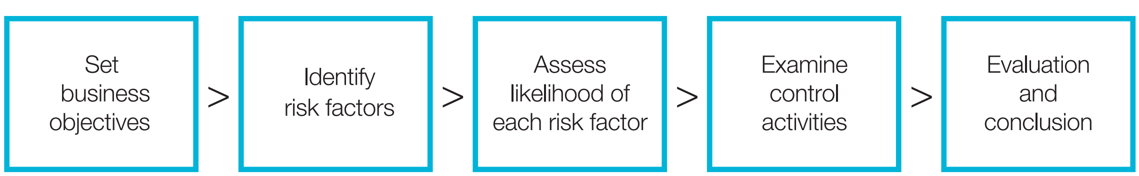
Areas of responsibility of each operational unit are clearly defined with specific limits of authority in place to ensure effective checks and balances. Procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of the reliability of financial information for internal use or publication and compliance with relevant legislations and regulations. Risk management system, internal control measures and procedures are continuously under review and being improved where necessary in response to changes in business, operating and regulatory environments.

Furthermore, Whistleblowing Policy and Procedures has been adopted by the Group, with the authority and responsibility being delegated to Audit Committee. Such Whistleblowing Policy is for employees and those who deal with the Group (e.g. customers and suppliers) to raise concerns, in confidence, with Company Secretary, and any and all relevant complaints received may then be referred to Audit Committee and/or Chairman of the Company about possible improprieties in any matter related to the Group.

The internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group. Findings regarding internal control matters are reported to Audit Committee. The external auditors have access to a full set of internal audit reports.

(III) Periodical Reviews

Under the leadership of RMICC, system reviews in a comprehensive approach on basis of COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework are conducted throughout the Group at least annually. Each business unit, through the co-ordination of DRMICCs, makes a self-assessment by a process as illustrated in the following flow diagram.



DRMICCs report on their reviews and findings, with the conclusions as to the effectiveness of the risk management and control activities of each individual business unit while RMICC will draw an overall review and conclusion for reporting to Audit Committee and the Board. Such reviewing exercise is carried out on a regular basis and affords good opportunities for the Group to identify and prioritise risks, and to develop and manage appropriate measures to control risks within acceptable levels and with a greater focus on anti-fraud measures.

(IV) Annual Confirmation

During the financial year ended 31 December 2016, Audit Committee, with the assistance of RMICC and DRMICCs, has conducted a review of the effectiveness of the Group's internal control system and procedures covering all controls, including financial, operational and compliance and risk management, and the adequacy of, *inter alia*, resources, qualifications, experience and training of staff of the Company's accounting and financial reporting function. Confirmations from management in the form of certification that risk management and internal control procedures are functioning effectively to meet the respective financial reporting, operational and compliance needs, are submitted by business and corporate unit heads to RMICC for consolidation and reporting to Audit Committee.

Based on the result of the review as reported by Audit Committee, in respect of the financial year ended 31 December 2016, the Directors considered that the risk management and internal control systems and procedures of the Group were effective and adequate, and the Group has duly complied with the requirements under the CG Code relating to the risk management and internal control.

A discussion on the principal risks and uncertainties encountered by the Group are set out on pages 42 to 43 in the Directors' Report.

(I) INSIDE INFORMATION POLICY

The Company recognises the significance of consistent practices of fair disclosure with the aim of disclosing inside information in a timely and accurate manner.

The Company has a policy with regard to the principles and procedures for handling and disseminating the Company's inside information in compliance with the requirements under Part XIVA of the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong) and the Listing Rules, and such policy has been communicated to the relevant senior executives of the Group. Company Secretary works closely with senior executives in identifying potential inside information and assess the materiality thereof, and where appropriate, to escalate such information for the attention of the Board to resolve on further action(s) complying with the applicable laws and regulations.

In prevention of premature leakage of inside information, the Company has taken all reasonable measures from time to time to ensure proper preservation of confidentiality of inside information until disclosure to the general public, including *inter alia*:

- restrictive access to inside information to a limited number of employees on a need-to-know basis
- appropriate confidentiality agreements are put in place when entering into any significant negotiations
- inclusion of a strict prohibition on the unauthorised use or disclosure of inside information in Employee Code of Conduct
- An Insider Dealing Circular is issued to all employees annually reminding their duties and obligations in respect of any dealings in the listed securities of the Company as well as its subsidiaries and associated corporations

(J) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2016, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flow for the year then ended and in compliance with the requirements of the Companies Ordinance (Cap 622 of the laws of Hong Kong) (the "Companies Ordinance") and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended 31 December 2016:

(i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;

(ii) prudent and reasonable judgments and estimates are made; and

(iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

(K) COMMUNICATION WITH SHAREHOLDERS

A Shareholders Communication Policy has been adopted by the Company to ensure that Shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and the investment community to engage actively with the Company.

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports are published/printed and printed copies of such reports or notifications of publication thereof on the Company's website are sent to all Shareholders. Such reports and press releases are posted and are available for download at the Company's corporate website www.harbourcentre.com.hk. Constantly being updated in a timely manner, the website contains a wide range of additional information on the Group's business activities.

The Company encourages its Shareholders to attend annual general meetings to ensure a high level of accountability and for Shareholders to stay informed of the Group's strategy and goals.

The Board and external auditors attend the annual general meetings to answer Shareholders' questions.

(L) SHAREHOLDERS' RIGHTS

I. Convene an Extraordinary General Meeting

Pursuant to Section 566 of the Companies Ordinance, on written requisition by Shareholders representing at least 5% of the total voting rights of all Shareholders having a right to vote at general meetings, the Directors of the Company must convene an extraordinary general meeting.

II. Send Enquiries to the Board

The Company's corporate website www.harbourcentre.com.hk provides email address (for enquiry purpose only), postal address, fax number and telephone number by which Shareholders may at any time address their enquiries to the Board.

III. Make Proposals at General Meetings

(i) The procedures for proposing candidate(s) for election as Director(s) at a Shareholders' meeting are set out in the Corporate Governance section of the Company's corporate website.

(ii) The procedures for proposing resolution(s) to be moved at the Company's annual general meeting(s) are as follows:

Pursuant to Section 615 of the Companies Ordinance, Shareholder(s) can submit a written requisition to move a resolution at the Company's annual general meeting(s) if they represent:

- at least 2.5% of the total voting rights of all Shareholders who have a right to vote at the annual general meeting to which the requests relate; or

- at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The relevant written requisition must –

(a) identify the resolution of which notice is to be given;

(b) be authenticated by the person or persons making it; and

(c) be received by the Company not later than 6 weeks before the relevant annual general meeting to which the requests relate; or if later, the time at which notice is given of that meeting.

Any written requisitions from Shareholders pursuant to Sections 566 and 615 of the Companies Ordinance as set out in sections L(I) and L(III) above must be sent to the Company to be deposited at the Company's registered office (16th Floor, Ocean Centre, Harbour City, Canton Road, Kowloon, Hong Kong).

(M) AMENDMENTS TO CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the financial year ended 31 December 2016.

DIRECTORS' REPORT

The Board of Directors has pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on pages 112 to 114.

BUSINESS REVIEW

Discussion and analysis of the Group's business in accordance with Schedule 5 of the Companies Ordinance (Cap 622 of the laws of Hong Kong) are covered in different sections of this Annual Report as set out below, which shall form an integral part of this Directors' Report:

- Chairman's Statement (pages 3 to 4)
- Business and Financial Review (pages 6 to 11)
- Financial Highlights (page 5)
- Principal risks and uncertainties (pages 42 to 43)
- Risk management and internal control systems (pages 23 to 26)
- Events after the reporting period (Note 29 to the consolidated financial statements on page 93)

In addition, the Group's policies and performance in the area of environmental, social and governance, and compliance with relevant laws and regulations are discussed in the sub-section headed "(K) Environmental, Social and Governance" on page 44.

RESULTS AND APPROPRIATIONS

The results of the Group for the financial year ended 31 December 2016 are set out in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income on pages 53 to 54.

Appropriations of profits during the financial year are set out in the Consolidated Statement of Change in Equity on page 56.

DIVIDENDS

A first interim dividend of 14 HK cents per share was paid on 8 September 2016. In lieu of a final dividend, a second interim dividend of 36 HK cents per share will be paid on 20 April 2017 to Shareholders on record as at 30 March 2017. Total distribution for the year of 2016 will amount to 50 HK cents (2015: 70 HK cents) per share.

DONATIONS

The Group made donations during the financial year totalling HK$2 million.

SHARE CAPITAL

Details of movement in share capital of the Company during the financial year are set out in Note 22 to the Financial Statements on page 85.

EQUITY-LINKED AGREEMENT

No equity-linked agreement which may result in the Company issuing shares was entered into or existed during the financial year.

DIRECTORS

The Directors of the Company during the financial year and up to the date of this report were Mr Stephen T H Ng, Dr Joseph M K Chow, Mr H M V de Lacy Staunton, Mr Kevin C Y Hui, Hon Andrew K Y Leung, Mr Michael T P Sze, Mr Brian S K Tang and Hon Frankie C M Yick.

Mr Stephen T H Ng, Dr Joseph M K Chow and Mr H M V de Lacy Staunton will retire from the Board at the forthcoming Annual General Meeting ("AGM") in accordance with Article 106(A) of the Company's Articles of Association. Mr H M V de Lacy Staunton has decided not to stand for re-election. The other retiring Directors, being eligible, offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

A list of persons who served as directors of the Company's subsidiaries during the financial year and up to the date of this report is set out in the sub-section headed "(L) Directors of Subsidiaries" on page 45.

INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance in relation to the Company's business to which any subsidiaries of the Company, the holding companies of the Company, or any subsidiaries of such holding companies was a party and in which a Director of the Company or any connected entities of a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during that financial year.

MANAGEMENT CONTRACTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company, its subsidiaries or its holding companies or any subsidiaries of such holding companies a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, with the exception that during the year, there existed certain outstanding options to subscribe for ordinary shares of The Wharf (Holdings) Limited ("Wharf"), the Company's parent company, and of Wheelock and Company Limited ("Wheelock"), the Company's ultimate holding company, granted under Wharf's share option scheme and Wheelock's share option scheme respectively to certain employees/directors of companies in Wharf Group and in Wheelock group respectively, some of whom was/were Director(s) of the Company during the financial year.

Under the respective rules of the two schemes (such rules being subject to the relevant laws and rules applicable from time to time), shares of Wharf and/or Wheelock would be issued at such respective prices as being not less than the highest of (a) the indicative price as specified in the written offer; (b) the closing price on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the options; and (c) the average closing price on the Stock Exchange for the five trading days immediately preceding the date of grant; and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of grant of relevant options, as determined by the boards of directors of Wharf and/or Wheelock respectively.

During the financial year, no shares of Wharf and/or Wheelock were allotted and issued under Wharf's and/or Wheelock's share option scheme to any person who was a director of the Company during the financial year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, every Director is entitled to be indemnified out of the assets of the Company against all costs, expenses, losses or liabilities, which he may sustain or incur in or about the execution and discharge of the duties of his office, to the extent as permitted by laws.

The Company has, together with its parent company (Wharf), its ultimate holding company (Wheelock) and a listed fellow subsidiary (i-CABLE Communications Limited), maintained directors' liability insurance which has been in force throughout the financial year and up to the date of this report to provide appropriate insurance cover for directors of their respective group companies, including *inter alia* the Directors of the Company.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities during the financial year.

AUDITORS

The Financial Statements now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment.

DIRECTORS' REPORT

OTHER CORPORATE INFORMATION

Other corporate information supplementary to this Directors' Report are set out on pages 33 to 45.

By Order of the Board
Kevin C Y Hui
Director and Company Secretary

Hong Kong, 2 March 2017

OTHER CORPORATE INFORMATION

(A) BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGERS

(i) Directors

Stephen Tin Hoi NG, *Chairman* (Age: 64)
Mr Ng has been Chairman and Director of the Company since 2009. He also serves as chairman of Nomination Committee and a member of Remuneration Committee. Among other listed companies in Hong Kong and Singapore, he is deputy chairman of Wheelock and Company Limited ("Wheelock"), the ultimate holding company of the Company, chairman and managing director of The Wharf (Holdings) Limited ("Wharf"), the holding company of the Company, chairman of i-CABLE Communications Limited ("i-CABLE") and Wheelock Properties (Singapore) Limited, subsidiaries of Wharf and Wheelock respectively, non-executive chairman of Joyce Boutique Holdings Limited ("Joyce"), as well as a non-executive director of Hotel Properties Limited, an associate of Wheelock. He was formerly a non-executive director of publicly listed Greentown China Holdings Limited ("Greentown").

Mr Ng was born in Hong Kong in 1952 and grew up in Hong Kong. He attended Ripon College in Ripon, Wisconsin, USA and the University of Bonn, Germany, from 1971 to 1975, and graduated with a major in mathematics. Mr Ng is chairman of Project *WeCan* Committee, chairman of Hong Kong General Chamber of Commerce, a council member of Employers' Federation of Hong Kong and Hong Kong Trade Development Council respectively.

Joseph Ming Kuen CHOW, *OBE, JP*, *Director* (Age: 75)
Dr Chow, *RPE, FHKIE, FICE, FIStructE, FCIT, MIHT,* has been an Independent Non-executive Director ("INED") of the Company since 2010. He also serves as a member of Audit Committee. He is a professional civil and structural engineer. He is chairman of Joseph Chow & Partners Limited and is an INED of three companies publicly listed in Hong Kong, namely Build King Holdings Limited, Chevalier International Holdings Limited and Road King Infrastructure Limited. He was formerly an INED of publicly listed Hsin Chong Construction Group Ltd (renamed as "Hsin Chong Group Holdings Limited"). Dr Chow was formerly president of the Hong Kong Institution of Engineers, chairman of the Hong Kong Examinations and Assessment Authority, a member of Hong Kong Housing Authority, a member of Hospital Authority and chairman of the Hong Kong Construction Workers Registration Authority.

Hugh Maurice Victor de LACY STAUNTON, *Director* (Age: 81)
Mr de Lacy Staunton has been an INED of the Company since 2001. He was a career banker with HSBC for 37 years. Immediately prior to retirement from HSBC, Mr de Lacy Staunton was chairman and managing director of HSBC Trustee and a director of a number of other HSBC companies. He is chairman of the advisory committee to The Bradbury Charitable Foundation.

Kevin Chung Ying HUI, *Director and Company Secretary* (Age: 60)
Mr Hui, *FCCA, CPA,* has been appointed as Director of the Company since August 2015. An accountant by profession since 1986, Mr Hui is presently a fellow of the Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Certified Public Accountants and a council member of The Taxation Institute of Hong Kong. He joined Wheelock in 1986 and has worked for Wheelock group and subsequently for Wharf group, gaining extensive experience in financial management and reporting control, auditing, taxation and corporate governance. He is currently group financial controller of Wharf group and a director of Wharf Limited and Modern Terminals Limited ("MTL"), both being fellow subsidiaries of the Company. Mr Hui has been Company Secretary of the Company since December 2014 and he is also company secretary of Wharf, i-CABLE and Joyce.

Hon Andrew Kwan Yuen LEUNG, *GBS, JP, Director* (Age: 66)
Mr Leung has been an INED of the Company since July 2012. He has more than 33 years of management experience in the textile, manufacturing, wholesale and distribution businesses. Mr Leung is president of the Sixth Legislative Council of Hong Kong and a member of the Industrial (First) Functional Constituency thereof. He is also a member of The National Committee of the Chinese People's Political Consultative Conference, honorary president of Federation of Hong Kong Industries, honorary chairman of Textile Council of Hong Kong Limited, as well as a member of Competition Commission and chairperson of the Staff Committee thereof. He formerly served as a director of The Hong Kong Mortgage Corporation Limited, a council member of Hong Kong Trade Development Council and a non-executive director of Mandatory Provident Fund Schemes Authority. Mr Leung is chairman of Sun Hing Knitting Factory Limited. He is also an INED of Dah Sing Banking Group Limited and China South City Holdings Limited, both being public companies listed in Hong Kong. Mr Leung is an Honorary Doctor of Business Administration, Coventry University, UK. He also holds a BSc (Hon) degree awarded by Leeds University, UK. He is also a Fellow of Textiles Institute and of Clothing & Footwear Institute.

Michael Tsai Ping SZE, *Director* (Age: 71)
Mr Sze, *FCA (Eng & Wales), FCCA, FCPA*, has been an INED of the Company since 2007. He also serves as a member and chairman of Audit Committee and Remuneration Committee as well as a member of Nomination Committee. Mr Sze has over 30 years of experience in the financial and securities field. He graduated with a Master of Laws (LLM) Degree from The University of Hong Kong. He was a former member of The Securities and Futures Appeals Tribunal. He was also a former council member and member of the Main Board Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr Sze is an INED of Greentown. He was formerly an INED of GOME Electrical Appliances Holding Limited and Walker Group Holdings Limited (renamed as "Vestate Group Holdings Limited"), both being public companies listed in Hong Kong.

Brian See King TANG, *Director* (Age: 67)
Mr Tang has been an INED of the Company since 2008. He also serves as a member of Audit Committee, Nomination Committee and Remuneration Committee. He has over 30 years of comprehensive experience in accounting and financial management. He graduated with a Bachelor Degree in Science from the California State University of Long Beach, USA. He was senior vice president of CITIC Ka Wah Bank Limited ("CKWB") for four years from 1997 with responsibilities covering treasury operations, remittance, bills operations, general services, property management, information technology and loan administration. He also served as a director of CKWB from 1998 to 2001. Before joining CKWB, he worked with various large organisations including 17-year service at Morgan Guaranty Trust Co as vice president and financial controller, and one-year service at Cheung Kong (Holdings) Limited as chief accountant.

Hon Frankie Chi Ming YICK, *JP, Director* (Age: 63)

Mr Yick, *MSc, BSc, CEng, FCILT, MIET, MCIPS,* has been a Director of the Company since July 2012. He joined Wharf group in 1994. He is now responsible for, *inter alia*, overseeing Wharf group's public transport and terminals portfolio. Mr Yick has extensive industrial and management experience in the public transportation and logistics industry, and is a member of the Legislative Council of Hong Kong representing the Transport Functional Constituency. Mr Yick is a non-executive director of The "Star" Ferry Company, Limited and a director of MTL, both being subsidiaries of Wharf. He is also a director of Hong Kong Air Cargo Terminals Limited which is an associate of Wharf. Other than the private sector, Mr Yick has also been appointed as a board member of the Airport Authority Hong Kong since 1 June 2014, a member of The Hong Kong Maritime and Port Board since 1 April 2016 and a member of the Property Management Services Authority since 1 December 2016. Mr Yick is a chartered engineer. He holds a Bachelor's Degree in Industrial Engineering awarded by The University of Hong Kong and a Master's Degree in Industrial Management awarded by The University of Birmingham, UK.

Notes:

(1) Wheelock and Wharf (of which (i) Mr Stephen T H Ng is director and (ii) Hon Frankie C M Yick and Mr Kevin C Y Hui are employees) have interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong) (the "SFO").

(2) Mr Stephen T H Ng, Hon Frankie C M Yick and Mr Kevin C Y Hui hold directorships in certain subsidiaries of the Company, and also in certain group companies of Wharf and Wheelock.

(3) The Company confirms that it has received written confirmation from each of the Independent Non-executive Directors confirming their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considers them independent.

(ii) Senior Management

During the financial year, the senior management responsibilities of the Group were vested with Chairman in conjunction with the Group's Hotel Manager and the Group's Property Project Manager, both being wholly-owned subsidiaries of Wharf.

(B) DIRECTORS' INTERESTS IN SECURITIES

(i) Interests in Shares and Debt Securities

At 31 December 2016, Directors of the Company had the following beneficial interests, all being long positions, in the shares and/or debt securities of the Company, Wharf (the Company's parent company), Wheelock (Wharf's parent company), i-CABLE and Wharf Finance Limited (both being fellow subsidiaries of the Company). The percentages (where applicable) which the relevant securities represented to the respective numbers of shares in issue of the five companies are also set out below:

	Quantity/ Amount held (percentage, where applicable)	**Nature of Interest**
The Company – Ordinary Shares		
Michael T P Sze	37,500 (0.0053%)	Family Interest
Wheelock – Ordinary Shares		
Stephen T H Ng	300,000 (0.0147%)	Personal Interest
Frankie C M Yick	7,000 (0.0003%)	Personal Interest
Wharf – Ordinary Shares		
Stephen T H Ng	4,445 (0.0001%)	Personal Interest
Andrew K Y Leung	6,629 (0.0002%)	Family Interest
Michael T P Sze	50,099 (0.0017%)	Family Interest
Frankie C M Yick	20,000 (0.0007%)	Personal Interest
i-CABLE – Ordinary Shares		
Stephen T H Ng	1,265,005 (0.0629%)	Personal Interest
Andrew K Y Leung	9,535 (0.0005%)	Family Interest
Wharf Finance Limited – USD Fixed Rate Notes due 2017		
Brian S K Tang	US$400,000	Personal Interest

Note:

The interests in shares disclosed above do not include interests in share options of the Company's associated corporation(s) held by Directors of the Company as at 31 December 2016. Details of such interests in share options are separately set out below under the sub-section headed "(ii) Interests in Share Options of Wharf".

(ii) Interests in Share Options of Wharf

Set out below are particulars of all interests (all being personal interests) in options held by Director(s) of the Company during the financial year ended 31 December 2016 to subscribe for ordinary shares of Wharf granted/exercisable under the share option scheme of Wharf:

Name of Director	Date of grant	No. of Wharf's shares under option (percentage based on no. of shares in issue) As at 1 January 2016	Granted during the year	Lapsed during the year	As at 31 December 2016	Subscription price per share (HK$)
Stephen T H Ng	4 July 2011	1,500,000	–	(1,500,000)	–	55.15
	5 June 2013	2,000,000	–	–	2,000,000	70.20
	7 July 2016	–	5,000,000	–	5,000,000	46.90
		3,500,000 (0.12%)			7,000,000 (0.23%)	

Notes:

(1) *The share options of Wharf granted on 5 June 2013 (exercisable from 6 June 2013 to 5 June 2018) outstanding as at both 1 January 2016 and 31 December 2016 were/will be vested in five tranches within a period of 5 years with each tranche covering one-fifth of the relevant Wharf's share options, i.e. exercisable to the extent of one-fifth of the relevant total number of Wharf's shares, and with the 1st, 2nd, 3rd, 4th and 5th tranche being exercisable from 6 June in the years 2013, 2014, 2015, 2016 and 2017 respectively.*

(2) *The share options of Wharf granted on 7 July 2016 (exercisable from 8 July 2016 to 7 July 2021) outstanding as at both date of grant and 31 December 2016 were/will be vested in five tranches within a period of 5 years with each tranche covering one-fifth of the relevant Wharf's share options, i.e. exercisable to the extent of one-fifth of the relevant total number of Wharf's shares, and with the 1st, 2nd, 3rd, 4th and 5th tranche being exercisable from 8 July in the years 2016, 2017, 2018, 2019 and 2020 respectively.*

(3) *Except as disclosed above, no Wharf's share option held by Directors of the Company lapsed or was exercised or cancelled during the financial year and no Wharf's share option was granted to any Director of the Company during the financial year.*

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the SFO in respect of information required to be notified to the Company and the Stock Exchange by Directors and/or Chief Executive of the Company pursuant to the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (or any other applicable code), there were no interests, whether long or short positions, held or deemed to be interested as at 31 December 2016 by any of Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), nor had there been any rights to subscribe for any shares, underlying shares or debentures of the Company and its associated corporations held or deemed to be interested by any of them as at 31 December 2016.

(C) SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of voting shares of the Company as at 31 December 2016, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register"):

Names		No. of Ordinary Shares (percentage based on no. of shares in issue)
(i)	The Wharf (Holdings) Limited	506,298,196 (71.44%)
(ii)	Wheelock and Company Limited	506,298,196 (71.44%)
(iii)	HSBC Trustee (C.I.) Limited	506,298,196 (71.44%)
(iv)	Harson Investment Limited	57,054,375 (8.05%)

Notes:

(1) For the avoidance of doubt and double counting, it should be noted that the shareholdings stated against parties (i) to (iii) above represented the same block of shares.

(2) Wheelock's deemed shareholding interests stated above were held through, inter alia, its two wholly-owned subsidiaries, namely Wheelock Investments Limited and WF Investment Partners Limited, which in turn have interests in more than one-third of the number of shares in issue of Wharf.

(3) Wharf's deemed shareholding interests stated above were held through its two wholly-owned subsidiaries, namely Wharf Estates Limited and Upfront International Limited.

All the interests stated above represent long positions. As at 31 December 2016, there were no short position interests recorded in the Register.

(D) RETIREMENT BENEFITS SCHEMES

The Group's principal retirement benefits schemes available to its Hong Kong employees are defined contribution schemes (including the Mandatory Provident Fund) which are administered by independent trustees. Both the Group and the employees contribute respectively to the schemes sums which represent certain percentage of the employees' salaries. The contributions by the Group are expensed as incurred and may be reduced by contribution forfeited for those employees who have left the schemes prior to full vesting of the relevant employee's contributions.

The employees of the Group's subsidiaries in Mainland China are members of the state-managed social insurance and housing funds operated by the Government of Mainland China. The Mainland China subsidiaries are required to contribute a certain percentage of payroll costs to the funds to fund the benefits. The only obligation of the Group with respect to the retirement benefits of Mainland China employees is to make the specified contributions.

(E) DIRECTORS' INTERESTS IN COMPETING BUSINESS

Set out below is information disclosed pursuant to Rule 8.10 of the Listing Rules.

Three Directors of the Company, namely Mr Stephen T H Ng, Hon Frankie C M Yick and Mr Kevin C Y Hui, being also directors of Wharf and/or certain subsidiaries of Wharf, are considered as having an interest in Wharf under Rule 8.10(2) of the Listing Rules.

Ownership of hotels, and ownership of property for letting and for development in Hong Kong and Mainland China carried on by subsidiaries of Wharf constitute competing businesses to the Group. In view of Wharf group's expertise and very good track record in the management and operation of hotels throughout the Asia Pacific region, the Group has engaged Marco Polo Hotels Management Limited ("MPHML", being a wholly-owned subsidiary of Wharf) to act as manager to operate, direct, manage and supervise The Murray, Marco Polo Hongkong Hotel ("MP Hong Kong") and Marco Polo Changzhou ("MP Changzhou"). MPHML is also responsible for the operation of the hotels of Wharf group in the Asia Pacific region. MPHML has agreed, *inter alia*, to operate The Murray, MP Hong Kong and MP Changzhou as first class hotels, failing which, the Group has the right to unilaterally terminate the engagement of MPHML.

The business of property development in Mainland China owned by Wharf group are also considered as competing with the Group's property development projects in Mainland China. In view of Wharf group's expertise in project management and sales and marketing of properties, the Group has engaged a wholly-owned subsidiary of Wharf as the project manager and sales and marketing agent for the construction, development, sales and marketing of the Group's property development projects.

For safeguarding the interests of the Group, INEDs and Audit Committee of the Company would on a regular basis review the business and operational results of the Group to ensure, *inter alia*, that the Group's hotel and property development businesses are and continue to be run on the basis that they are independent of, and at arm's length from, those of Wharf group.

(F) MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2016:

(i) the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases; and

(ii) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

(G) DEBENTURES, BANK LOANS AND OTHER BORROWINGS

Particulars of any and all debentures, bank loans and/or other borrowings of the Company and of the Group as at 31 December 2016 which are repayable on demand or within a period not exceeding one year and after a period of one year are set out in Note 19 to the Financial Statements on page 77.

(H) PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the financial year ended 31 December 2016.

(I) DISCLOSURE OF CONNECTED TRANSACTION

Set out below is information in relation to certain continuing connected transactions involving the Company and/or its subsidiaries, particulars of which were previously disclosed in the announcements of the Company dated 31 December 2013, 10 November 2014 and 11 November 2016 respectively and are required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company:

(i) Master Hotel Services Agreement with Wharf group

During the financial year, there existed certain individual hotel services agreements entered into between certain subsidiary(ies) of the Company and MPHML for the purpose of engaging MPHML to provide, *inter alia*, management, marketing and technical services and/or any other services relating to the development and/or operations of hotel and/or serviced apartments property(ies) ("Hotel Services"), in respect of certain hotel properties and/or projects of the Group in Hong Kong and Mainland China.

On 10 November 2014, a master hotel services agreement (the "MHSA") was entered into between the Company and Wharf for a fixed term of three years commencing on 1 January 2015 and expiring on 31 December 2017. The MHSA is for the purpose of, *inter alia*, regulating various continuing connected transactions in respect of the provision of Hotel Services by Wharf group to the Group and stipulating, *inter alia*, the annual cap amount of remuneration payable by the Group to Wharf group in relation thereto at HK$100 million per annum.

The aggregate annual amounts of remuneration under the MHSA, which is subject to the relevant annual cap amount as abovementioned for the financial year ended 31 December 2016 amounted to HK$42 million.

(ii) Master Property Services Agreement with Wharf group

During the financial year, there existed certain individual property services agreements entered into between subsidiary(ies) of the Company and subsidiary(ies) of Wharf for the purpose of engaging Wharf group companies to provide, *inter alia*, project management services, sales and marketing services, management services and/or any other property-related services (the "Property Services") in respect of certain properties and/or property projects owned by the Group.

On 31 December 2013, a master property services agreement (the "MPSA") was entered into between the Company and Wharf for a fixed term of three years commencing on 1 January 2014 and expiring on 31 December 2016. The MPSA is for the purpose of, *inter alia*, regulating various continuing connected transactions in respect of the provision of the Property Services by Wharf group to the Group and stipulating, *inter alia*, the annual cap amount of remuneration payable by the Group to Wharf group in relation thereto at HK$230 million for the financial year of 2016.

On 11 November 2016, a renewal master property services agreement (the "Renewal MPSA") was entered into between the Company and Wharf for another fixed term of three years commencing on 1 January 2017 and expiring on 31 December 2019. The Renewal MPSA is for the purpose of providing for, *inter alia*, the annual cap amounts of remuneration payable by the Group to Wharf group in relation thereto, which are fixed at HK$170 million, HK$190 million and HK$200 million for the financial years of 2017, 2018 and 2019 respectively.

The aggregate annual amounts of remuneration under the Renewal MPSA, which is subject to the relevant annual cap amount as abovementioned for the financial year ended 31 December 2016 amounted to HK$78 million.

Wharf being a substantial shareholder is regarded as a connected person of the Company within the meaning under the Listing Rules, the transactions mentioned under Section (I)(i) and Section (I)(ii) above constitute continuing connected transactions for the Company.

(iii) Confirmation from Directors and Auditors

(a) Directors, including INEDs, of the Company have reviewed the continuing connected transactions mentioned under Sections (I)(i) and (I)(ii) above (the "Transactions") and have confirmed that the Transactions were entered into:

(1) by the Group in the ordinary and usual course of its business;

(2) on normal commercial terms; and

(3) according to the relevant agreements governing the Transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

(b) In accordance with paragraph 14A.56 of the Listing Rules, the Board of Directors engaged the Company's auditors to perform procedures on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditors of the Company have advised that nothing has come to their attention that causes them to believe that:

(1) the Transactions had not been approved by the Company's Board of Directors;

(2) the Transactions were not entered into, in all material respects, in accordance with the terms of the relevant agreements governing the Transactions;

(3) the relevant cap amounts, where applicable, have been exceeded during the financial year ended 31 December 2016; and

(4) in the event that there would be any transactions involving the provision of goods or services by the Group, the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

(iv) With regard to the Related Party Transactions as disclosed under Note 24 to the Financial Statements on page 87, the transactions stated under paragraphs (a) and (b) therein constitute connected transactions (as defined under the Listing Rules) of the Company, the one under paragraph (c) does not constitute a connected transaction under the Listing Rules, and those under paragraph (d) constitute a fully exempt connected transaction of the Company, for all of which the applicable requirements under the Listing Rules have been duly complied with.

(J) PRINCIPAL RISKS AND UNCERTAINTIES

The following is a list of principal risks and uncertainties that are considered to be of significant as it currently stands and with potential affecting the Group's business, results of operations and financial conditions. However, this is non-exhaustive as there may be other risks and uncertainties arise resulting from changes in economic and other conditions over time. The Group employs a risk management and internal control framework to identify current and foreseeable risks at different levels of the organisation so as to take preventive actions to avoid or mitigate their adverse impact.

Risks pertaining to IP

IP segment is the Group's core business with IP asset accounted for 40% of the Group's total business assets. With the majority of the properties locating in Hong Kong and Mainland China, the general economic climate, regulatory changes, government policies and the political conditions in both Hong Kong and Mainland China may have a significant impact on the Group's overall financial results and positions. The Group's rental income may experience more frequent adjustments resulting from competition arising from oversupply in retail and office areas. Furthermore, rental levels may also be impacted by external economic and market conditions including but not limited to the fluctuations in general supply and demand, performance in stock markets and financial volatility, which may indirectly affect the Group's IP performance.

IPs are stated at fair values in accordance with the Hong Kong Financial Reporting Standards in the consolidated statement of financial position at each reporting period. The fair values are provided by independent professional surveyors, using the income capitalisation approach which capitalised the net income of properties and takes into account the significant adjustments on term yield to account for the risk upon reversion and changes in fair value are recognised to the consolidated income statement. Given the size of the Group's IP portfolio, any significant change in the IP values may overwhelmingly affect the Group's results that may not be able to reflect the Group's operating and cash flow performance.

In this respect, the Group regularly assesses changes in economic environment and keeps alert to market needs and competitors' offensives in order to maintain competitiveness. Continuously maintaining the quality of the assets and building up a diversified and high-quality tenant-mix also help the Group to grow revenue and to resist in a sluggish economy. In addition, long-range planned and tactical promotions are seamlessly executed for maintaining the IPs' leading brands and value.

Risks pertaining to DP

DP segment in the Mainland has been dominating the Group's financial performance since 2012, but the segment will continue subject to economic, political and legal developments in Mainland China as well as in the economies in the surrounding region. In recent years, the Group DP land bank has not been replenished and depletion will continue and the profit contribution therefrom will likely decrease substantially after 2017.

Risks pertaining to Hotel Segment

The Group owns 4 hotels in Hong Kong and Mainland. Hotel performance is usually subject to a high degree of fluctuations caused by both predictable and unpredictable factors including seasonality, social stability, epidemic diseases and changes in economic conditions. For instance, anticipated negative impacts from worldwide geopolitical tension, unfolding of Brexit and economic uncertainties arising from anticipated U.S. interest rate hikes, together with the change in the foreign exchanges of the surrounding regions have varied the development pattern of the tourism and hospitality industry with heavily reliance on the growth of visitor arrivals from Mainland.

In this respect, Hotel Segment closely assesses the impact of the geopolitical outlook and economic development of different countries for building its portfolios and exposures to match with the Group's risk appetite. It also takes continual reviews of competition, legal and political changes as well as market trends for setting its business strategies including marketing and pricing to protect and drive profitability.

Legal and Regulatory Compliance risk

Whilst the Group has a diversified portfolio of business operations across Hong Kong and various Mainland cities, any failure to anticipate the trend of regulatory changes or cope with relevant requirements may result in non-compliance of local laws or regulation, leading to not only financial loss but also reputational damage to the Group. In mitigation of relevant risks, the Group actively assesses the effect of relevant developments and engages closely with regulatory authorities and external advisors on new laws and regulations and also trending legislations to ensure relevant requirements are properly complied with in an effective manner.

Financial risk

The Group is exposed to financial risks related to interest rate, foreign currency, equity price, liquidity and credit risks in the normal course of the business. For further details of such risks and relevant management policies, please refer to Note 21 to the Financial Statements from pages 79 to 84.

(K) ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Company is delighted to introduce its first Environmental, Social and Governance ("ESG") Report this year, we are committed to continuously improving our environment, social and governance performance. In line with the sustainability strategies of our parent company, Wharf Group, the Company endeavours to advance beyond regulatory compliance and demonstrate corporate citizenship.

MP Hong Kong is a key driver of the Group's efforts to care for the environment. A carbon audit programme is in place to record carbon emissions and drive efficiency in resource use. The most significant initiatives implemented this year include retrofits with more power-efficient lighting systems, as well as the implementation of green practices.

The Company is also committed to responsibility and accountability when it comes to value chain management. At MP Hong Kong, all services delivered abide by relevant legislations governing operational divisions, including the proper handling of guests' data as required by the Personal Data (Privacy) Ordinance (Cap 486) and the stringent maintenance of catering operations as required by the Food Safety Ordinance (Cap 612). Company-wide, the Business Code of Conduct ensures that the highest ethical standards guide decisions and day-to-day operations.

Employees, as the cornerstone of the Company, are provided with competitive remuneration alongside attractive welfare benefits. The Company complies with the Employment Ordinance (Cap 57), and provides internal and external training contributing to the growth of our employees. The Company also implements anti-discrimination policies in accordance with relevant legislations[1] in Hong Kong to create an inclusive work culture and ensure that the talent acquisition process is devoid of bias. With strict adherence to the Occupational Safety and Health Ordinance (Cap 509), the Company provides a safe and healthy workplace.

Beyond the boundary of its economic activities, the Company's social governance also extends to contributing to community development initiatives. In the reporting year, MP Hong Kong worked with target charities and Project *WeCan* partner schools to help and develop children of special needs and youth of underprivileged background.

The Company provides further details on environmental and social performance on pages 12 to 14 of this Annual Report, and shall continually strive to uphold the principles of sustainable development.

1 *Sex Discrimination Ordinance (Cap 480), Disability Discrimination Ordinance (Cap 487), Family Status Discrimination Ordinance (Cap 527) and Race Discrimination Ordinance (Cap 602).*

(L) DIRECTORS OF SUBSIDIARIES

The names of all persons who, during the financial year and up to 2 March 2017 (the date of this report), served as directors of all those companies included as subsidiaries in the consolidated financial statements of the Company for the financial year ended 31 December 2016 are set out below:

Andrea Limited
CHAN Kwok Pong
CHAN Sik Wah
CHOW On Kiu
GUO Yong
HAO Jian Min
HUI Chung Ying Kevin
LEE Yuk Fong Doreen
LI Lei
NG Tin Hoi Stephen
OON Hock Neo
PAO Zen Kwok Peter
TSUI Yiu Cheung
WEI Qing Shan
WU Guan
ZHANG Lu
ZHANG Yi
凌學風

KPMG

TO THE MEMBERS OF HARBOUR CENTRE DEVELOPMENT LIMITED

(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Harbour Centre Development Limited and its subsidiaries ("the Group") set out on pages 53 to 114, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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.

Valuation of completed investment properties ("IP")

Refer to accounting policy D(i) and note 8 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
The Group holds a portfolio of completed IP (primarily retail properties) located in Hong Kong which accounted for 19% of the Group's total assets as at 31 December 2016. The fair values of the completed IP as at 31 December 2016 were assessed by the Group based on independent valuations prepared by a qualified external property valuer which took into account the net income of each property, allowing for reversionary potential and redevelopment potential, where appropriate. The net changes in fair value of completed IP recorded in the consolidated income statement represented 7% of the Group's profit before taxation for the year ended 31 December 2016. We identified valuation of completed IP as a key audit matter because these properties are significant to the Group's total assets and a small adjustment to or variances in the assumptions and data used to compute the valuation of individual properties, when aggregated, could have a significant impact on the Group's profit and because the valuation of completed IP is inherently subjective and requires significant judgement and estimation, particularly in determining market rents and capitalisation rates, which increases the risk of error or potential management bias.	Our audit procedures to assess the valuation of completed IP included the following: • obtaining and inspecting the valuation reports prepared by the external property valuer engaged by the Group; • meeting the external property valuer, to discuss and challenge the key estimates and assumptions adopted in the valuations, including the prevailing market rents, market yields and comparable market transactions, and to assess the independence, objectivity, qualifications and expertise of the external property valuer in the properties being valued; • with the assistance of our internal property valuation specialists, assessing the valuation methodology adopted by the external property valuer and comparing the key estimates and assumptions adopted in the valuation of each completed IP, including market rents and capitalisation rates, with available market data and government statistics; • conducting site visits to the completed IP and comparing tenancy information, including market rents and occupancy rates adopted by the external property valuer with underlying contracts and related documentation, on a sample basis.

Net realisable value of properties under development for sale ("PUD") in Mainland China *Refer to accounting policy I(i) and (ii) and note 13 to the consolidated financial statements*	
The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2016 the Group had a number of property development projects located in major cities across Mainland China which were stated at the lower of cost and net realisable value at an amount which totalled HK$1,957 million. The calculation of the net realisable value of each property development project at the financial reporting date is performed by the Group's internal property valuers. The calculation of the net realisable value of PUD involves significant management judgement and estimation in preparing and updating the project feasibility studies and estimations of the costs to complete each property development project, as well as in assessing the expected selling prices for each property (by reference to recent sales transactions in nearby locations and rates of new property sales) and the estimated future selling costs and requires the application of a risk-adjusted discount rate to estimate the future discounted cash flows to be derived from each property development project. Recent property market cooling measures imposed by the local governments in different cities in Mainland China, which include increased percentages for mortgage down payments and home purchase restrictions, could lead to volatility in property prices in these cities. We identified the net realisable value of PUD in Mainland China as a key audit matter because of the inherent risks involved in estimating the costs to complete each property development project and the future selling prices for each property development project, particularly in light of the current economic circumstances in Mainland China and because of the risk of management bias in the judgement and estimates used in the calculation of net realisable value.	Our audit procedures to assess the net realisable value of PUD in Mainland China included the following: • evaluating the design, implementation and operating effectiveness of key internal controls over the preparation, monitoring and management of the budgeted construction and other costs for each property development project; • conducting site visits to all property development projects, discussing with the Group's internal property valuers the progress and comparing the observed progress with the latest development budgets for each property development project provided by management; • assessing the internal property valuers' qualifications, experience and expertise in the properties being valued; • evaluating the internal property valuers' valuation methodology and assessing the key estimates, data inputs and assumptions adopted in the valuations, which included comparing expected future average selling prices with available market data such as recently transacted prices for similar properties located in the nearby vicinity of each property development project and comparing costs to complete each property development project with publicly available construction cost information for similar properties (taking into account both property type and location) and the sales budget plans maintained by the Group; • re-performing the calculations made by the internal property valuers in arriving at the year end assessments of net realisable value, on a sample basis, and comparing the estimated costs to complete each property development project with the Group's updated budgets; • performing sensitivity analyses to determine the extent of change in those estimates that, either individually or collectively, would be required for PUD to be materially misstated and considering the likelihood of such a movement in those key estimates arising and whether there was any evidence of management bias.

Impairment assessment of hotel properties *Refer to accounting policies D(ii), G(ii) and note 9 to the consolidated financial statements*	
The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2016, the Group held a number of hotel properties located in Hong Kong and Mainland China which were stated at cost less accumulated depreciation and impairment losses at a total amount of HK$6,470 million. At the financial reporting date, the Group reviewed the hotel properties to determine whether there was any indicators of impairment. When indicators of impairment are identified management assesses the recoverable amount of the hotel property. An impairment loss is recognised as an expense in the consolidated income statement if the carrying amount of the hotel property exceeds its recoverable amount. The calculation of the recoverable amount of a hotel property is performed by the Group's internal property valuers and/or an external property valuer. The recoverable amount is determined based on the value in use of the hotel property by discounting the projected cash flows associated with the hotel property using a risk-adjusted discount rate. The preparation of discounted cash flow forecasts can be highly subjective and requires the exercise of significant management judgement and estimation, in particular in determining forecast occupancy rates, forecast revenue per available room, the growth rates and the discount rates applied. The current economic environment and competition in the market place in Hong Kong and second tier cities in Mainland China may put pressure on hotel room rates and occupancy rates. We identified assessing impairment of hotel properties as a key audit matter because of the significant management judgement and estimation required in making assumptions and estimations which are inherently uncertain and could be subject to management bias.	Our audit procedures to assess the impairment of hotel properties included the following: • discussing with management whether there were any indicators of impairment of individual hotel properties as at 31 December 2016; • assessing the reasonableness of the impairment assessment models, which included evaluating the indicators of impairment and assessing whether the impairment assessment models were prepared in accordance with the requirements of the prevailing accounting standards; • obtaining and inspecting the recoverable amount calculations prepared by the Group's internal property valuers and the external property valuer engaged by the Group; • assessing the qualifications, experience and expertise of the internal property valuers (for hotel properties under development) and the external property valuer (for completed hotel properties) in the properties being valued; • with the assistance of our internal property valuation specialists, assessing the valuation methodology adopted by the property valuers and comparing the key estimates and assumptions adopted in the impairment assessment models for hotel properties, including forecast hotel room rates, forecast occupancy rates, growth rates and the discount rates applied, with available market data and government statistics; • evaluating the historical accuracy of management's calculations of the recoverable amounts of hotel properties by comparing the forecasts at the end of the previous financial year for occupancy rates, revenue per available room and growth rates with the actual outcomes in the current year and industry forecasts; • performing sensitivity analyses to determine the extent of change in those estimates that, either individually or collectively, would be required for the hotel properties to be materially misstated and considering the likelihood of such a movement in those key estimates arising and whether there was any evidence of management bias.

Revenue recognition on sale of development properties ("DP") *Refer to accounting policy M and note 1 to the consolidated financial statements* **The key audit matter**	**How the matter was addressed in our audit**
Revenue from the DP segment, which represented proceeds from the sales of properties in the cities of Changzhou and Suzhou in Mainland China, accounted for 70% of the Group's revenue for the year ended 31 December 2016. Deposits from pre-sale of properties at 31 December 2016 totalled HK$5,030 million. Provided it is probable that the economic benefits will flow to the Group, revenue from sales of DP is recognised upon the later of the execution of a formal sale and purchase agreement or the issue of the occupation permit/completion certificate by the relevant government authorities. We identified the recognition of revenue on sale DP as a key audit matter because of its significance to the Group and because small errors in the recognition of revenue, either individually or in aggregate for each property development project, could have a material impact on the Group's profit for the year.	Our audit procedures to assess the recognition of revenue on sale of DP included the following: • assessing the Group's revenue recognition policies on sale of DP with reference to the requirements of the prevailing accounting standards; • evaluating the design, implementation and operating effectiveness of key internal controls over the recognition of revenue for the DP segment; • inspecting occupation permits and/or completion certificates which had been issued by the relevant government authorities for a sample basis of sales and pre-sales for each property development project, and assessing whether the cash for the sample selected had been received by comparing the amount received with bank statements and other relevant underlying documentation and assessing whether the related revenue should be recorded in the current accounting period or should be deferred as deposits from pre-sale of properties.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

2 March 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Note	2016 HK$ Million	2015 HK$ Million
Revenue	1	**3,558**	5,048
Direct costs and operating expenses		**(2,332)**	(3,136)
Selling and marketing expenses		**(131)**	(138)
Administrative and corporate expenses		**(74)**	(90)
Operating profit before depreciation, interest and tax		**1,021**	1,684
Depreciation		**(52)**	(62)
Operating profit	1 & 2	**969**	1,622
Change in fair value of investment properties		**(70)**	37
Other net income	3	**31**	79
		930	1,738
Finance costs	4	**(57)**	(59)
Share of results after tax of:			
Joint ventures	11	**176**	95
Associates	10	**23**	133
Profit before taxation		**1,072**	1,907
Income tax	5(a)	**(310)**	(502)
Profit for the year		**762**	1,405
Profit attributable to:			
Equity shareholders		**692**	1,231
Non-controlling interests		**70**	174
		762	1,405
Earnings per share	6		
Basic		**HK$0.98**	HK$1.74
Diluted		**HK$0.98**	HK$1.74

The notes and principal accounting policies on pages 59 to 114 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 7.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 HK$ Million	2015 HK$ Million
Profit for the year	**762**	1,405
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of the operations of:	**(460)**	(627)
– subsidiaries	**(419)**	(515)
– joint ventures	**(41)**	(112)
Fair value changes on available-for-sale investments:	**–**	(255)
– deficit on revaluation	**–**	(219)
– transferred to profit or loss on disposal	**–**	(36)
Items that will not be classified to profit or loss:		
Fair value changes on equity investments	**(151)**	–
Others	**4**	–
Other comprehensive income for the year	**(607)**	(882)
Total comprehensive income for the year	**155**	523
Total comprehensive income attributable to:		
Equity shareholders	**140**	419
Non-controlling interests	**15**	104
	155	523

The notes and principal accounting policies on pages 59 to 114 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 HK$ Million	2015 HK$ Million
Non-current assets			
Investment properties	8	**8,277**	7,876
Hotel properties, plant and equipment	9	**6,529**	5,677
Interest in associates	10	**1,417**	1,608
Interest in joint ventures	11	**1,808**	2,039
Equity investments	12	**2,301**	–
Available-for-sale investments	12	**–**	2,450
Deferred tax assets	20	**–**	46
Other non-current assets		**20**	16
		20,352	19,712
Current assets			
Properties for sale	13	**1,957**	2,699
Inventories		**3**	3
Trade and other receivables	14	**484**	660
Derivative financial assets	15	**–**	1
Prepaid tax	5(f) and (g)	**164**	129
Bank deposits and cash	16	**5,154**	6,447
		7,762	9,939
Total assets		**28,114**	29,651
Non-current liabilities			
Deferred tax liabilities	20	**(44)**	(69)
Bank loans	19	**(2,450)**	(4,400)
		(2,494)	(4,469)
Current liabilities			
Trade and other payables	17	**(3,165)**	(2,600)
Pre-sale deposits and proceeds	18	**(5,030)**	(4,691)
Derivative financial liabilities	15	**–**	(2)
Taxation payable	5(f)	**(79)**	(159)
Bank loans	19	**(800)**	(400)
		(9,074)	(7,852)
Total liabilities		**(11,568)**	(12,321)
NET ASSETS		**16,546**	17,330
Capital and reserves			
Share capital	22	**3,641**	3,641
Reserves		**12,188**	12,544
Shareholders' equity		**15,829**	16,185
Non-controlling interests		**717**	1,145
TOTAL EQUITY		**16,546**	17,330

The notes and principal accounting policies on pages 59 to 114 form part of these financial statements.

Stephen T H Ng
Chairman

Kevin C Y Hui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Shareholders' equity						
	Share capital HK$ Million	Investments revaluation reserve HK$ Million	Exchange reserve HK$ Million	Revenue reserve HK$ Million	Total shareholders' equity HK$ Million	Non-controlling interests HK$ Million	Total equity HK$ Million
At 1 January 2015	3,641	917	1,256	10,391	16,205	1,041	17,246
Changes in equity for 2015:							
Profit for the year	–	–	–	1,231	1,231	174	1,405
Other comprehensive income	–	(255)	(557)	–	(812)	(70)	(882)
Total comprehensive income	–	(255)	(557)	1,231	419	104	523
2014 second interim dividend paid	–	–	–	(340)	(340)	–	(340)
2015 first interim dividend paid	–	–	–	(99)	(99)	–	(99)
At 31 December 2015 and 1 January 2016	**3,641**	**662**	**699**	**11,183**	**16,185**	**1,145**	**17,330**
Changes in equity for 2016:							
Profit for the year	**–**	**–**	**–**	**692**	**692**	**70**	**762**
Other comprehensive income	**–**	**(151)**	**(405)**	**4**	**(552)**	**(55)**	**(607)**
Total comprehensive income	**–**	**(151)**	**(405)**	**696**	**140**	**15**	**155**
Transfer to revenue reserves upon de-recognition of equity investments	**–**	**(48)**	**–**	**48**	**–**	**–**	**–**
2015 second interim dividend paid	**–**	**–**	**–**	**(397)**	**(397)**	**–**	**(397)**
2016 first interim dividend paid	**–**	**–**	**–**	**(99)**	**(99)**	**–**	**(99)**
Capital repatriation to non-controlling interests of a subsidiary	**–**	**–**	**–**	**–**	**–**	**(232)**	**(232)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(211)**	**(211)**
At 31 December 2016	**3,641**	**463**	**294**	**11,431**	**15,829**	**717**	**16,546**

The notes and principal accounting policies on pages 59 to 114 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 HK$ Million	2015 HK$ Million
Operating cash inflow	(a)	**876**	1,538
Changes in working capital	(a)	**1,864**	1,858
Cash generated from operations	(a)	**2,740**	3,396
Net interest received		**16**	4
Interest received		**69**	88
Interest paid on bank loans		**(53)**	(84)
Dividend income from listed investments		**76**	56
Dividend income from joint venture		**366**	71
Hong Kong profits tax paid		**(59)**	(108)
PRC taxation paid		**(347)**	(363)
Net cash generated from operating activities		**2,792**	3,056
Investing activities			
Additions of investment properties and hotel properties, plant and equipment		**(1,571)**	(1,044)
Net decrease in interest in associates		**168**	543
Net decrease in interest in joint ventures		**214**	172
Capital repatriation to non-controlling interests of a subsidiary		**(232)**	–
Purchase of equity investments		**(109)**	(1,175)
Proceeds from disposal of equity investments		**107**	53
Net cash used in investing activities		**(1,423)**	(1,451)
Financing activities			
Drawdown of bank loans		**1,300**	1,800
Repayment of bank loans		**(2,850)**	(1,418)
Dividends paid to equity shareholders		**(496)**	(439)
Dividends paid to non-controlling interests		**(211)**	–
Net cash used in financing activities		**(2,257)**	(57)
(Decrease)/increase in cash and cash equivalents		**(888)**	1,548
Cash and cash equivalents at 1 January		**6,447**	5,185
Effect on exchange rate changes		**(405)**	(286)
Cash and cash equivalents at 31 December		**5,154**	6,447

Cash and cash equivalents represent bank deposits and cash.

The notes and principal accounting policies on pages 59 to 114 form part of these financial statements.

NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to cash generated from operations

	2016 HK$ Million	2015 HK$ Million
Operating profit	**969**	1,622
Depreciation	**52**	62
Dividend income from listed investments	**(76)**	(56)
Interest income	**(69)**	(90)
Operating cash inflow	**876**	1,538
Decrease in properties for sale	**949**	1,210
Decrease in inventories	**–**	2
Decrease in trade and other receivables	**132**	73
Increase in trade and other payables	**160**	5
Increase in pre-sale deposits and proceeds	**636**	573
Changes in derivative financial instruments (net)	**(1)**	36
Decrease in amounts due to fellow subsidiaries (net)	**(12)**	(41)
Changes in working capital	**1,864**	1,858
Cash generated from operations	**2,740**	3,396

1. SEGMENT INFORMATION

The Group manages its diversified businesses according to the nature of services and products provided. Management has determined three reportable operating segments for measuring performance and allocating resources. The segments are development property, investment property and hotel. No operating segment has been aggregated to form reportable segments.

Development property segment encompasses activities relating to the acquisition, development, design, construction, sales and marketing of the Group's trading properties primarily in Mainland China.

Investment property segment primarily represents the property leasing of the Group's investment properties in Hong Kong. Some of the Group's development projects in Mainland China include properties which are intended to be held for investment purposes on completion.

Hotel segment represents the operations of Marco Polo Hongkong Hotel and Marco Polo Changzhou. It also includes The Murray which is under construction.

Management evaluates performance based on operating profit as well as the equity share of results of associates and joint ventures of each segment.

Segment business assets principally comprise all tangible assets, intangible assets and current assets directly attributable to each segment with the exception of bank deposits and cash, equity investments, derivative financial assets and deferred tax assets.

Revenue and expenses are allocated with reference to income generated by those segments and expenses incurred by those segments or which arise from the depreciation of assets attributable to those segments.

(a) Analysis of segment revenue and results

	Revenue HK$ Million	Operating profit HK$ Million	Change in fair value of investment properties HK$ Million	Other net income HK$ Million	Finance costs HK$ Million	Joint ventures HK$ Million	Associates HK$ Million	Profit before taxation HK$ Million
2016								
Development property	**2,482**	**425**	**–**	**23**	**(8)**	**176**	**23**	**639**
Investment property	**315**	**283**	**(70)**	**–**	**(14)**	**–**	**–**	**199**
Hotel	**616**	**130**	**–**	**–**	**(4)**	**–**	**–**	**126**
Segment total	**3,413**	**838**	**(70)**	**23**	**(26)**	**176**	**23**	**964**
Investment and others	**145**	**145**	**–**	**8**	**(31)**	**–**	**–**	**122**
Corporate expenses	**–**	**(14)**	**–**	**–**	**–**	**–**	**–**	**(14)**
Group total	**3,558**	**969**	**(70)**	**31**	**(57)**	**176**	**23**	**1,072**
2015								
Development property	3,930	1,041	–	50	(13)	95	133	1,306
Investment property	344	309	37	–	(15)	–	–	331
Hotel	628	138	–	–	(4)	–	–	134
Segment total	4,902	1,488	37	50	(32)	95	133	1,771
Investment and others	146	146	–	29	(27)	–	–	148
Corporate expenses	–	(12)	–	–	–	–	–	(12)
Group total	5,048	1,622	37	79	(59)	95	133	1,907

(i) Substantially all depreciation was attributable to the Hotel Segment.

(ii) No inter-segment revenue has been recorded during the current and prior years.

(b) Analysis of segment business assets

	2016 HK$ Million	2015 HK$ Million
Development property	**5,710**	6,885
Investment property	**8,326**	8,049
Hotel	**6,623**	5,773
Total segment business assets	**20,659**	20,707
Unallocated corporate assets	**7,455**	8,944
Total assets	**28,114**	29,651

(i) Hotels are stated at amortised cost. Should the completed hotel properties be stated based on the valuation as at 31 December 2016 of HK$4,464 million (2015: HK$4,754 million), the total segment business assets would be increased to HK$24,562 million (2015: HK$24,846 million).

(ii) Unallocated corporate assets mainly comprise equity investments, deferred tax assets, derivative financial assets and bank deposits and cash.

(c) Geographical information

	Revenue		Operating profit	
	2016 HK$ Million	2015 HK$ Million	2016 HK$ Million	2015 HK$ Million
Hong Kong	**907**	946	**473**	503
Mainland China	**2,606**	4,064	**451**	1,081
Singapore	**45**	38	**45**	38
Group total	**3,558**	5,048	**969**	1,622

	Specified non-current assets		Total business assets	
	2016 HK$ Million	2015 HK$ Million	2016 HK$ Million	2015 HK$ Million
Hong Kong	**11,275**	10,438	**11,414**	10,705
Mainland China	**6,756**	6,762	**9,245**	10,002
Group total	**18,031**	17,200	**20,659**	20,707

Specified non-current assets exclude equity investments, deferred tax assets, derivative financial assets and other non-current assets.

Geographically, HK$9,245 million (2015: HK$10,002 million) or 45% (2015: 48%) of the Group's total business assets, based on book cost, were located in Mainland China.

The geographical location of revenue and operating profit is analysed based on the location at which services are provided and in case of equity instruments, where they are listed. The geographical location of specified non-current assets and total business assets is based on the physical location of operations.

2. OPERATING PROFIT

(a) Operating profit is arrived at:

	2016 HK$ Million	2015 HK$ Million
After charging/(crediting):		
Depreciation	**52**	62
Staff costs (Note i)	**208**	215
Auditors' remuneration	**2**	2
Cost of trading properties for recognised sales	**1,968**	2,768
Rental charges under operating leases	**16**	14
Gross rental revenue from investment property (Note ii)	**(315)**	(344)
Direct operating expenses of investment property	**20**	25
Interest income	**(69)**	(90)
Dividend income from listed investments	**(76)**	(56)

Notes:

(i) Staff costs included defined contribution pension schemes costs HK$7 million (2015: HK$6 million).

(ii) Rental income included contingent rentals of HK$60 million (2015: HK$112 million).

(b) Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Contributions to pension scheme HK$'000	2016 Total HK$'000	2015 Total HK$'000
Executive Director						
Stephen T H Ng	**50**	**960**	–	–	**1,010**	1,010
Non-executive Directors						
Kevin K P Chan (iii)	–	–	–	–	–	18
Paul Y C Tsui (iv)	–	–	–	–	–	29
Kevin C Y Hui (v)	**50**	–	–	–	**50**	21
Frankie C M Yick	**50**	–	–	–	**50**	50
Independent Non-executive Directors						
Michael T P Sze (ii)	**70**	–	–	–	**70**	70
H M V de Lacy Staunton	**50**	–	–	–	**50**	50
Brian S K Tang (ii)	**70**	–	–	–	**70**	70
Joseph M K Chow (ii)	**70**	–	–	–	**70**	70
Andrew K Y Leung	**50**	–	–	–	**50**	50
	460	**960**	–	–	**1,420**	1,438
Total for 2015	478	960	–	–	–	1,438

Notes:

(i) There was no compensation for loss of office and/or inducement for joining the Group paid/payable to the Company's Directors in respect of the years ended 31 December 2016 and 2015.

(ii) Includes Audit Committee Member's fee received by each of relevant Directors of HK$20,000 per annum for the year ended 31 December 2016 (2015: HK$20,000 per annum).

(iii) Mr Kevin K P Chan ceased to be a Director of the Company with effect from 12 May 2015.

(iv) Mr Paul Y C Tsui ceased to be a Director of the Company with effect from 1 August 2015.

(v) Mr Kevin C Y Hui was appointed as a Director of the Company with effect from 1 August 2015.

(c) Emoluments of the highest paid employees

For the year ended 31 December 2016, information regarding emoluments of 5 (2015: 5) employees of the Group who, not being Directors of the Company, were among the top five highest paid individuals (including Directors of the Company and other employees of the Group) employed by the Group has been set out below:

Aggregate emoluments	2016 HK$ Million	2015 HK$ Million
Salaries, allowances and benefits in kind	7	7
Discretionary bonuses and/or performance related bonuses	1	2
	8	9

Bands (in HK$)	2016 Number	2015 Number
$1,000,001–$1,500,000	2	–
$1,500,001–$2,000,000	3	5

3. OTHER NET INCOME

	2016 HK$ Million	2015 HK$ Million
Profit on disposal of available-for-sale investments, including revaluation surplus of HK$Nil (2015: HK$36 million) transferred from the investments revaluation reserve	–	33
Net exchange gain, including the impact of forward foreign exchange contracts	31	46
	31	79

4. FINANCE COSTS

	2016 HK$ Million	2015 HK$ Million
Interest on bank borrowings	**43**	60
Other finance costs	**29**	31
	72	91
Less: Amount capitalised	**(15)**	(32)
	57	59

(a) Interest was capitalised at an average annual rate of approximately 1.0% (2015: 1.3%).

(b) All interest costs are in respect of interest bearing borrowings that are stated at amortised cost.

5. INCOME TAX

(a) Taxation charged to the consolidated income statement represents:

	2016 HK$ Million	2015 HK$ Million
Current income tax		
Hong Kong		
– provision for the year	**71**	80
– overprovision in respect of prior years	**(2)**	(2)
Mainland China		
– provision for the year	**215**	329
– overprovision in respect of prior years	**(2)**	–
	282	407
Land appreciation tax (“LAT”) (Note (d))	**9**	89
Deferred tax		
Origination and reversal of temporary differences	**19**	6
Total	**310**	502

(b) The provision for Hong Kong profits tax is at the rate of 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

(c) Income tax on profits assessable in Mainland China are China corporate income tax calculated at a rate of 25% (2015: 25%) and China withholding tax at a rate of up to 10%.

(d) Under the Provisional Regulations on LAT, all gains arising from transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all property development expenditures.

(e) The China tax law also imposes a withholding tax at 10%, unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China. For the year ended 31 December 2016, the Group has provided HK$13 million (2015: HK$42 million) for withholding tax on accumulated earnings generated by its Mainland China subsidiaries which will be distributed to their immediate holding companies outside Mainland China in the foreseeable future.

(f) The prepaid tax/taxation payable in the consolidated statement of financial position is expected to be recovered/settled within one year.

(g) Prepaid tax represents advance LAT and corporate income tax paid in respect of pre-sale proceeds received from sale of properties in Mainland China.

(h) Tax attributable to joint ventures and associates for the year ended 31 December 2016 of HK$152 million (2015: HK$135 million) is included in the share of results of joint ventures and associates.

(i) Reconciliation between the actual total tax charge and accounting profit at applicable tax rates:

	2016 HK$ Million	2015 HK$ Million
Profit before taxation	**1,072**	1,907
Notional tax on accounting profit calculated at applicable tax rates	**188**	377
Tax effect of non-deductible expenses	**64**	62
Tax effect of change in fair value of investment properties	**12**	(6)
Tax effect of non-taxable income	**(27)**	(42)
Tax effect of tax losses not recognised	**11**	12
Tax effect of utilisation of tax losses and other temporary differences	**44**	(30)
Overprovision in respect of prior years	**(4)**	(2)
LAT on trading properties	**9**	89
Withholding tax on distributed/undistributed earnings	**13**	42
Actual total tax charge	**310**	502

6. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity shareholders for the year of HK$692 million (2015: HK$1,231 million) and the weighted average of 709 million ordinary shares (2015: 709 million shares) in issue during the year.

7. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2016 HK$ Per share	2016 HK$ Million	2015 HK$ Per share	2015 HK$ Million
First interim dividend declared and paid	0.14	99	0.14	99
Second interim dividend declared after the end of the reporting period	0.36	255	0.56	397
	0.50	354	0.70	496

(a) The second interim dividend based on 709 million issued ordinary shares (2015: 709 million shares) declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) The second interim dividend of HK$397 million for 2015 was approved and paid in 2016.

8. INVESTMENT PROPERTIES

	Completed HK$ Million	Under development HK$ Million	Total HK$ Million
(a) Cost or valuation			
At 1 January 2015	5,377	1,876	7,253
Exchange adjustment	–	(109)	(109)
Additions	–	695	695
Revaluation surpluses	37	–	37
At 31 December 2015 and 1 January 2016	5,414	2,462	7,876
Exchange adjustment	–	(156)	(156)
Additions	–	627	627
Revaluation surpluses	(70)	–	(70)
At 31 December 2016	5,344	2,933	8,277

	Completed HK$ Million	Under development HK$ Million	Total HK$ Million
(b) The analysis of cost or valuation of the above assets is as follows:			
2016 valuation	**5,344**	**–**	**5,344**
At cost	**–**	**2,933**	**2,933**
	5,344	**2,933**	**8,277**
2015 valuation	5,414	–	5,414
At cost	–	2,462	2,462
	5,414	2,462	7,876
(c) Tenure of title to properties:			
At 31 December 2016			
Held in Hong Kong			
Long term leases	**5,344**	**–**	**5,344**
Held outside Hong Kong			
Medium term leases	**–**	**2,933**	**2,933**
	5,344	**2,933**	**8,277**
At 31 December 2015			
Held in Hong Kong			
Long term leases	5,414	–	5,414
Held outside Hong Kong			
Medium term leases	–	2,462	2,462
	5,414	2,462	7,876

(d) Investment properties revaluation

The Group's investment properties under development are stated at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property.

The investment properties stated at fair value as at 31 December 2016 were revalued by Knight Frank Petty Limited ("Knight Frank"), an independent firm of professional surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors with extensive experience in valuing properties in Hong Kong and Mainland China. Knight Frank has valued the investment properties on a market value basis and has taken into account the net income of the respective properties, allowing for reversionary potential and the redevelopment potential of the properties where appropriate.

The revaluation differences arising on revaluation on investment properties is recognised in the line item "Change in fair value of investment properties" on the face of the consolidated income statement.

Investment properties are measured at fair value at the end of the reporting period across the three levels of the inputs to the revaluation methodologies in accordance with HKFRS 13, Fair value measurement. The levels are defined as follows:

Level 1 valuations: Fair value measured using only level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using level 2 inputs i.e. observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group's completed investment properties measured at HK$5,344 million (2015: HK$5,414 million) mainly represent the retail properties located in Hong Kong, were classified as Level 3 under the fair value hierarchy in accordance with HKFRS 13.

None of the Group's investment properties measured at fair value are categorised as Level 1 and Level 2 input.

During the years ended 31 December 2016 and 2015, there were no transfers among Level 1, Level 2, or transfers into or out of Level 3.

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation processes

The Group reviews the valuations performed by the independent valuers for financial reporting purposes by verifying all major inputs and assessing the reasonableness of property valuations. A valuation report with an analysis of changes in fair value measurement is prepared at each interim and annual reporting date, and is reviewed and approved by the senior management.

Valuation methodologies

The valuation of completed retail properties in Hong Kong were based on income capitalisation approach which capitalised the net income of the properties and taking into account the significant adjustment on term yield to account for the risk upon reversion and the estimation in vacancy rate after expiry of current lease.

Level 3 valuation methodologies

The significant unobservable inputs was capitalisation rate at 5.0% (2015: 5.0%). The fair value measurement of investment properties is negatively correlated to the capitalisation rate.

(e) The Group leases out its investment properties under operating leases, which generally run for an initial period of two to ten years. Lease payments may be varied periodically to reflect market rentals and may contain a contingent rental element which is based on various percentages of tenants' sales receipts.

(f) The Group's total future minimum lease income receivable under non-cancellable operating leases as follows:

	2016 HK$ Million	2015 HK$ Million
Within 1 year	**263**	250
After 1 year but within 5 years	**188**	417
After 5 years	**105**	135
	556	802

9. HOTEL PROPERTIES, PLANT AND EQUIPMENT

	Hotel properties HK$ Million	Others HK$ Million	Total HK$ Million
(a) Cost			
At 1 January 2015	5,976	459	6,435
Exchange adjustment	(69)	(3)	(72)
Additions	338	11	349
Disposals	–	(4)	(4)
At 31 December 2015 and 1 January 2016	**6,245**	**463**	**6,708**
Exchange adjustment	**(72)**	**(3)**	**(75)**
Additions	**929**	**15**	**944**
Disposals	**–**	**(3)**	**(3)**
At 31 December 2016	**7,102**	**472**	**7,574**
Accumulated depreciation and impairment			
At 1 January 2015	661	345	1,006
Exchange adjustment	(32)	(1)	(33)
Charge for the year	19	43	62
Written back on disposals	–	(4)	(4)
At 31 December 2015 and 1 January 2016	**648**	**383**	**1,031**
Exchange adjustment	**(34)**	**(1)**	**(35)**
Charge for the year	**18**	**34**	**52**
Written back on disposals	**–**	**(3)**	**(3)**
At 31 December 2016	**632**	**413**	**1,045**
Net book value			
At 31 December 2016	**6,470**	**59**	**6,529**
At 31 December 2015	5,597	80	5,677

(b) Tenure of title to properties:

	Hotel properties HK$ Million
At 31 December 2016	
Held in Hong Kong	
Long term leases	**22**
Medium term leases	**5,868**
Held outside Hong Kong	
Medium term leases	**580**
	6,470
At 31 December 2015	
Held in Hong Kong	
Long term leases	22
Medium term leases	4,947
Held outside Hong Kong	
Medium term leases	628
	5,597

(c) Impairment of hotel properties, plant and equipment

The value of hotel properties, plant and equipment is assessed at the end of each reporting period for indications of impairment with reference to valuations undertaken by management. Such valuations assess the recoverable amount of each asset being the higher of its value in use or its fair value less costs to sell. No such provision was made or written back for 2016 and 2015.

(d) Hotels properties under development

As at 31 December 2016, hotel properties under development amounted to HK$5,909 million (2015: HK$4,982 million) was not subject to depreciation.

10. INTEREST IN ASSOCIATES

	2016 HK$ Million	2015 HK$ Million
Share of net assets	**679**	702
Amount due from an associate	**738**	906
	1,417	1,608

Details of principal associate at 31 December 2016 are shown on page 114.

(a) Interest in associates at 31 December 2016 and 2015 mainly represents the Group's 27%-interest in a limited liability company, 上海萬九綠合置業有限公司, established for development property in Shanghai in Mainland China.

(b) Amount due from an associate is unsecured, interest free, has no fixed terms of repayment and not expected to be recoverable within twelve months from the end of the reporting period. The amount is neither past due nor impaired.

(c) The associates are unlisted corporate entities whose quoted market price is not available. All of the associates are accounted for using the equity method in the consolidated financial statements.

Summarised financial information of 上海萬九綠合置業有限公司, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2016 HK$ Million	2015 HK$ Million
Summarised statement of financial position		
Cash and cash equivalents	**373**	1,744
Other current assets	**7,511**	7,875
Total current assets	**7,884**	9,619
Trade and other payables	**(3,591)**	(4,472)
Other current liabilities	**(1,778)**	(2,072)
Total current liabilities	**(5,369)**	(6,544)
Non-current assets	**–**	1
Non-current liabilities	**–**	(478)
Net assets	**2,515**	2,598
Summarised statement of comprehensive income		
Revenue	**752**	1,820
Interest income	**5**	2
Profit from continuing operations	**270**	698
Income tax expense	**(185)**	(206)
Post-tax profit from continuing operations	**85**	492
Other comprehensive income	**(170)**	(153)
Total comprehensive income	**(85)**	339

	2016 HK$ Million	2015 HK$ Million
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	**2,515**	2,598
Group's effective interest	**27%**	27%
Group's share of net assets of the associate	**679**	702
Carrying amount in the consolidated financial statement	**679**	702

No other associates are considered to be material to the Group individually or in aggregate.

11. INTEREST IN JOINT VENTURES

	2016 HK$ Million	2015 HK$ Million
Share of net assets	**1,808**	2,039

Details of principal joint ventures at 31 December 2016 are shown on page 114.

(a) The Group's interest in joint ventures at 31 December 2016 and 2015 mainly represents its 55%-interest in a limited liability company, Speedy Champ Investments Limited ("Speedy Champ"), which holds 100% interest in a limited liability company, 重慶豐盈房地產開發有限公司, established for development property in Chongqing in Mainland China. Notwithstanding the Group's contribution of 55% of the registered capital, as the Group and the joint venture partner contractually agree to share control of Speedy Champ and have rights to the net assets of Speedy Champ, the Group accounts for its investment as a joint venture.

(b) The joint ventures are unlisted corporate entities whose quoted market price is not available. All of the joint ventures are accounted for using the equity method in the consolidated financial statements.

Summarised financial information of Speedy Champ, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2016 HK$ Million	2015 HK$ Million
Summarised statement of financial position		
Cash and cash equivalents	210	339
Other current assets	3,480	4,269
Total current assets	3,690	4,608
Trade and other payables	(268)	(279)
Other current liabilities	(181)	(649)
Total current liabilities	(449)	(928)
Non-current assets	46	27
Net assets	3,287	3,707
Summarised statement of comprehensive income		
Revenue	1,935	962
Interest income	5	3
Profit from continuing operations	507	318
Income tax expense	(186)	(144)
Post-tax profit from continuing operations	321	174
Other comprehensive income	(74)	(204)
Total comprehensive income	247	(30)
Dividends received from joint venture	366	71

	2016 HK$ Million	2015 HK$ Million
Reconciled to the Group's interest in the joint venture		
Gross amounts of net assets of the joint venture	3,287	3,707
Group's effective interest	55%	55%
Group's share of net assets of the joint venture	1,808	2,039
Carrying amount in the consolidated financial statement	1,808	2,039

12. EQUITY INVESTMENTS/AVAILABLE-FOR-SALE INVESTMENTS

	2016 HK$ Million	2015 HK$ Million
Listed investments stated at market value		
– in Hong Kong	**869**	867
– outside Hong Kong	**1,432**	1,583
	2,301	2,450

13. PROPERTIES FOR SALE

	2016 HK$ Million	2015 HK$ Million
Properties under development for sale	**1,753**	2,510
Completed properties for sale	**204**	189
	1,957	2,699

(a) At 31 December 2016, included in the properties under development for sale are HK$77 million (2015: HK$1,117 million) expected to be completed after more than one year.

(b) As 31 December 2016, the carrying value of leasehold land included in properties under development for sale and completed properties for sale is summarised as follows:

	2016 HK$ Million	2015 HK$ Million
Held outside Hong Kong		
Long term leases	**984**	1,707

14. TRADE AND OTHER RECEIVABLES

(a) Ageing analysis

Included in this item are trade receivables (net of allowance for doubtful debts) with an ageing analysis based on invoice date as at 31 December 2016 as follows:

	2016 HK$ Million	2015 HK$ Million
Trade receivables		
0–30 days	44	168
31–60 days	2	1
Over 60 days	8	4
	54	173
Prepayments	351	399
Other receivables	39	48
Amounts due from fellow subsidiaries	40	40
	484	660

The Group has established credit policies for each of its core businesses. The general credit terms allowed range from 0 to 60 days, except for sale of properties the proceeds from which are receivable pursuant to the terms of the agreements. The amounts due from fellow subsidiaries are unsecured, interest free and recoverable on demand. All the trade and other receivables are expected to be recoverable within one year.

The amount of the Group's prepayments expected to be recognised as expense after more than one year is HK$53 million (2015: HK$61 million).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. At 31 December 2016 and 2015, no significant amounts of trade receivables were individually determined to be doubtful or impaired.

(c) Trade receivables that are not impaired

As at 31 December 2016 and 2015, the Group assessed that of the total trade receivables, virtually all of them are neither past due nor impaired.

Based on historical and forward looking elements of the Group, it was determined that no impairment allowance is necessary in respect of the past due balances as there has not been a significant change in credit quality of the customers and the balances are still considered to be fully recoverable. The Group does not hold any collateral over these balances.

15. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 Assets HK$ Million	2016 Liabilities HK$ Million	2015 Assets HK$ Million	2015 Liabilities HK$ Million
At fair value through profit or loss				
Forward foreign exchange contracts	–	–	–	2
Other derivatives	–	–	1	–
Total	–	–	1	2
Analysis				
Current	–	–	1	2
Total	–	–	1	2

Analysis of the remaining maturities at the end of the reporting period of the above derivative financial instruments were as follows:

	2016 Assets HK$ Million	2016 Liabilities HK$ Million	2015 Assets HK$ Million	2015 Liabilities HK$ Million
Forward foreign exchange contracts				
Expiring within 1 year	–	–	–	2
Other derivatives				
Expiring within 1 year	–	–	1	–
Total	–	–	1	2

(a) The notional principal amounts of derivative financial instruments outstanding at the end of the reporting period were as follows:

	2016 HK$ Million	2015 HK$ Million
Forward foreign exchange contracts	–	2,652

(b) In 2015, derivative financial assets represented the amounts the Group would receive whilst derivative financial liabilities represented the amounts the Group would pay if the positions were closed at the end of the reporting period.

(c) None of the derivative financial instruments are qualified for hedge accounting and accordingly their corresponding changes in fair values have been recognised in the consolidated income statement.

(d) In 2015, a gain of HK$2 million in respect of forward foreign exchange contracts has been included under other net income in the consolidated income statement.

16. BANK DEPOSITS AND CASH

Bank deposits and cash as at 31 December 2016 include HK$5,047 million equivalent (2015: HK$6,406 million) placed with banks in Mainland China, the remittance of which are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

At 31 December 2016, bank deposits and cash included bank deposits of RMB86 million (equivalent to HK$96 million) (2015: RMB134 million equivalent to HK$160 million) which are solely for certain designated development property projects in Mainland China.

The effective interest rate on bank deposit was 1.2% (2015: 1.5%) per annum.

Bank deposits and cash are denominated in the following currencies:

	2016 HK$ Million	2015 HK$ Million
HKD	**108**	39
United States dollar (“USD”)	**24**	28
RMB	**5,022**	6,380
	5,154	6,447

17. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis based on invoice date as at 31 December 2016 as follows:

	2016 HK$ Million	2015 HK$ Million
Trade payables		
0–30 days	**17**	34
31–60 days	**5**	1
	22	35
Other payables and provisions	**474**	292
Construction costs payable	**1,216**	1,022
Amounts due to fellow subsidiaries	**30**	42
Amounts due to associates	**1**	1
Amounts due to joint ventures	**1,422**	1,208
	3,165	2,600

The amounts due to fellow subsidiaries, associates and joint ventures are unsecured, interest free and repayable on demand.

Included in the above other payables and provisions and construction costs payable, are amounts of HK$69 million (2015: HK$460 million) which are expected to be settled after one year. The Group considers the effect of discounting these would be immaterial. All of the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

18. PRE-SALE DEPOSITS AND PROCEEDS

None (2015: HK$2,836 million) of the total pre-sale deposits and proceeds received in respect of Mainland China based properties are expected to be recognised as income in the consolidated income statement after more than one year.

19. BANK LOANS

	2016 HK$ Million	2015 HK$ Million
Bank loans (unsecured)		
Due within 1 year or on demand	**800**	400
Due after more than 1 year but not exceeding 2 years	**300**	1,500
Due after more than 2 years but not exceeding 5 years	**2,150**	2,900
Total	**3,250**	4,800

(a) The Group's borrowings are considered by the management to be denominated in the following currencies:

	2016 HK$ Million	2015 HK$ Million
HKD	**3,250**	4,800

(b) All the interest bearing borrowings are carried at amortised cost. None of the non-current interest bearing borrowings is expected to be settled within one year.

(c) Certain of the above borrowings are attached with financial covenants which require that at any time, the Group's consolidated tangible net worth is not less than and the ratio of borrowings to consolidated tangible net worth is not more than certain required levels. During the year under review, all these covenants have been complied with by the Group.

20. DEFERRED TAXATION

(a) Net deferred tax (assets)/liabilities recognised in the consolidated statement of financial position:

	2016 HK$ Million	2015 HK$ Million
Deferred tax liabilities	**44**	69
Deferred tax assets	**–**	(46)
Net deferred tax liabilities	**44**	23

The components of net deferred tax (assets)/liabilities and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation HK$ Million	Future benefit of tax losses HK$ Million	Withholding tax for the possible dividend distribution HK$ Million	Others HK$ Million	Total HK$ Million
At 1 January 2015	14	(2)	21	(17)	16
(Credited)/charged to the consolidated income statement	(2)	–	38	(30)	6
Exchange adjustment	–	–	(2)	3	1
At 31 December 2015 and 1 January 2016	**12**	**(2)**	**57**	**(44)**	**23**
(Credited)/charged to the consolidated income statement	**3**	**2**	**(29)**	**43**	**19**
Exchange adjustment	**–**	**–**	**1**	**1**	**2**
At 31 December 2016	**15**	**–**	**29**	**–**	**44**

(b) Deferred tax assets not recognised

Deferred tax assets have not been recognised in respect of the following items:

	2016		2015	
	Deductible temporary differences/ tax losses HK$ Million	**Deferred tax assets HK$ Million**	Deductible temporary differences/ tax losses HK$ Million	Deferred tax assets HK$ Million
Deductible temporary differences	**477**	**119**	442	110
Future benefit of tax losses				
– Hong Kong	**25**	**4**	16	3
– Mainland China	**141**	**35**	112	28
	166	**39**	128	31
	643	**158**	570	141

(c) The Group has not recognised the deferred tax assets attributable to the future benefit of tax losses sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilised is uncertain at 31 December 2016. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from Mainland China operations can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose.

21. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group is exposed to financial risks related to interest rate, foreign currency, equity price, liquidity and credit in the normal course of business. To manage some of these risks, the Group Finance Committee develops, maintains and monitors the Group's financial policies designed to facilitate cost efficient funding to the Group and to mitigate the impact of fluctuations in interest rates and exchange rates. The financial management policies are implemented by the Group's Treasury department, which operates as a centralised service unit in close co-operation with the Group's operating units for managing the day-to-day treasury functions and financial risks and for providing cost efficient funding to the Group.

The Group uses derivatives, principally forward foreign exchange contracts, as deemed appropriate, for financing and hedging transactions and for managing risks associated with the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions and invest in financial products with significant underlying leverage which are commercially speculative.

(a) Interest rate risk

The Group's main exposure to interest rate risk relates principally to the Group's borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group manages its interest rate risk exposures in accordance with defined policies and reviews this exposure with a focus on reducing the Group's overall cost of funding as well as maintaining the floating/fixed rate mix appropriate to its current business portfolio.

As at 31 December 2016, all the Group's borrowings were at floating rate and the interest rate was approximately 2.0% per annum (2015: 2.0% per annum).

Based on a sensitivity analysis performed on 31 December 2016, it was estimated that a general increase/decrease of 1% (2015: 1%) in interest rates, with all other variables held constant, the Group's post-tax profit and total equity would have increased/decreased by approximately HK$15 million (2015: increased/decreased HK$19 million). This takes into account the effect of interest bearing bank deposits.

The sensitivity analysis above indicates the instantaneous change in the Group's post-tax profit and total equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2015.

(b) Foreign currency risk

The Group owns assets and conducts its businesses both in Hong Kong and Mainland China, with its cash flows denominated substantially in HKD and RMB which exposes the Group to foreign currency risk with respect to RMB related to its property development in Mainland China. Anticipated foreign exchange payments relate primarily to RMB capital expenditure.

Where appropriate or available in a cost-efficient manner, the Group may enter into forward foreign exchange contracts to manage its foreign currency risk arising from the anticipated transactions denominated in currencies other than its entities' functional currencies.

The Group's borrowings are predominantly denominated in the functional currency of the entity taking out the borrowings. In the case of group companies whose functional currencies are in HKD, their borrowings will be either in HKD or USD. For managing the overall financing costs of existing and future capital requirements for the projects in Mainland China and Hong Kong, the Group has adopted a diversified funding approach and has entered into certain forward foreign exchange contracts. Based on prevailing accounting standards, the forward foreign exchange contracts are marked to market with the valuation movement recognised in the consolidated income statement.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets/(liabilities) denominated in a currency other than the functional currency of the Group's entities to which they relate. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency and exposure arising from inter-company balances which are considered to be in the nature of investment in a subsidiary are excluded.

	USD Million	RMB Million
At 31 December 2016		
Equity investments	**184**	**–**
Bank deposits and cash	**3**	**–**
Inter-company balances	**–**	**(127)**
Gross exposure arising from recognised assets and liabilities/Overall net exposure	**187**	**(127)**
At 31 December 2015		
Available-for-sale investments	203	–
Bank deposits and cash	4	–
Inter-company balances	–	66
Gross exposure arising from recognised assets and liabilities/Overall net exposure	207	66

In addition, at 31 December 2016, the PRC subsidiaries of the Group with RMB as their functional currency are exposed to foreign currency risk with respect to HKD/USD by holding HKD/USD denominated bank deposits and cash in the amount of HK$25 million (2015: HK$27 million).

Based on the sensitivity analysis performed on 31 December 2016, it was estimated that the impact on the Group's post-tax profit and total equity would not be material in response to possible changes in the foreign exchange rates of foreign currencies to which the Group is exposed.

It is further analysed that the sensitivity on the translation of the Mainland operations from 1% increase/decrease of exchange rate of RMB against HKD, the Group's total equity would have increased/decreased by HK$59 million (2015: HK$93 million).

(c) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as fair value through other comprehensive income.

Listed investments have been chosen for their long term growth potential and returns and are monitored regularly for performance. Given that the volatility of the stock markets may not have a direct correlation with the Group's investment portfolio, it is impractical to determine the impact that the changes in stock market indices would have on the Group's portfolio of equity investments.

Based on the sensitivity analysis performed on 31 December 2016, it is estimated that a 5% (2015: 5%) increase/decrease in the market value of the Group's equity investments, with all other variables held constant, would not have affected the Group's post-tax profit but would have increased/decreased the Group's total equity by HK$115 million (2015: HK$123 million). The analysis is performed on the same basis as for 2015.

(d) Liquidity risk

The Group adopts a prudent liquidity risk management policy, maintaining sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding with staggered maturities to reduce refinancing risk in any year from major financial institutions and to maintain flexibility for meeting its liquidity requirements in the short and longer term. The Group's cash management is substantially centralised within the Group Treasury department, which regularly monitors the current and expected liquidity requirements and its compliance with lending covenants.

Certain non-wholly-owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence of the Company.

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's derivative and non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates at the end of the reporting period and carried at exchange rate prevailing at the end of the reporting period) and the earliest date the Group can be required to pay:

		Contractual undiscounted cash flow				
	Carrying amount HK$ Million	Total HK$ Million	Within 1 year or on demand HK$ Million	More than 1 year but less than 2 years HK$ Million	More than 2 years but less than 5 years HK$ Million	More than 5 years HK$ Million
At 31 December 2016						
Bank loans	**(3,250)**	**(3,404)**	**(847)**	**(341)**	**(2,216)**	**–**
Trade and other payables	**(3,165)**	**(3,165)**	**(3,096)**	**(55)**	**(4)**	**(10)**
	(6,415)	**(6,569)**	**(3,943)**	**(396)**	**(2,220)**	**(10)**
At 31 December 2015						
Bank loans	(4,800)	(4,983)	(456)	(1,551)	(2,976)	–
Trade and other payables	(2,600)	(2,600)	(2,140)	(452)	–	(8)
Forward foreign exchange contracts at fair value through profit or loss	(2)	(2)	(2)	–	–	–
	(7,402)	(7,585)	(2,598)	(2,003)	(2,976)	(8)

The Company is exposed to liquidity risk that arises from financial guarantees given by the Company on behalf of subsidiaries. The guarantees are callable if the respective subsidiary is unable to meet its obligation and the maximum amount callable as at 31 December 2016 was HK$3,250 million (2015: HK$3,130 million).

(e) Credit risk

The Group's credit risk is primarily attributable to rental, trade and other receivables, cash and cash equivalents and over-the-counter derivative financial instruments. The exposures to these credit risks are closely monitored on an ongoing basis by established credit policies and procedures in each of its core businesses. In respect of rental receivables, sufficient rental deposits from tenants are held to cover potential exposure to credit risk. Further, evaluations are made for the customers with reference to their repayment history and financial strength, as well as the economic environment in which the customer operates.

Cash at bank, deposits placed with financial institutions, and investments and transactions involving derivative financial instruments are with counter parties with sound credit ratings to minimise credit risk exposure.

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. Except for the financial guarantees given by the Company as set out in Note 25, the Group does not provide any other guarantee which would expose the Group or the Company to material credit risk.

(f) Fair values of assets and liabilities

(i) Assets and liabilities carried at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement ("HKFRS 13"). The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as defined in Note 8(d).

Financial instruments carried at fair value

The fair value measurement information for financial instruments in accordance with HKFRS 13 is given below:

	Fair value measurements as at 31 December 2016 categorised into		
	Level 1 HK$ Million	**Level 2 HK$ Million**	**Total HK$ Million**
Assets			
Equity investments:			
– Listed investments	**2,301**	**–**	**2,301**

	Fair value measurements as at 31 December 2015 categorised into		
	Level 1 HK$ Million	Level 2 HK$ Million	Total HK$ Million
Assets			
Available-for-sale investments:			
– Listed investments	2,450	–	2,450
Derivative financial instruments:			
– Other derivatives	1	–	1
	2,451	–	2,451
Liabilities			
Derivative financial instruments:			
– Forward foreign exchange contracts	–	2	2

During the years ended 31 December 2016 and 2015, there were no transfers of instruments between Level 1 and Level 2, or transfer into or out of Level 3.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of reporting period in which they occur.

Equity investments and other derivatives in Level 1 are stated at quoted market prices.

The fair value of forward foreign exchange contracts in Level 2 is determined by using the forward exchange rates at the end of the reporting period and comparing them to the contractual rates. The fair value of bank loans and other borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(ii) Assets and liabilities carried at other than fair value

The fair values of receivables, bank balances and other current assets, payables and accruals, current borrowings, and provisions are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

All financial instruments carried at cost or amortised cost are carried at amounts not materially different from their fair values as at 31 December 2016 and 2015. Amounts due from/(to) fellow subsidiaries and related parties are unsecured, interest free and have no fixed repayment terms. Given these terms it is not meaningful to disclose fair values.

(g) Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, to meet its financial obligations and continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in the Group's business portfolio and economic conditions.

The Group monitors its capital structure by reviewing its net debt-to-equity ratio and cash flow requirements, taking into account its future financial obligations and commitments. For this purpose, the Group defines net debt as total loans less bank deposits and cash. Shareholders' equity comprises issued share capital and reserves attributable to equity shareholders of the Company. Total equity comprises shareholders' equity and non-controlling interests.

The net debt-to-equity ratio as at 31 December 2016 and 2015 were as follows:

	2016 HK$ Million	2015 HK$ Million
Bank loans (Note 19)	**3,250**	4,800
Less: Bank deposits and cash (Note 16)	**(5,154)**	(6,447)
Net cash	**(1,904)**	(1,647)
Shareholders' equity	**15,829**	16,185
Total equity	**16,546**	17,330
Net debt-to-shareholders' equity ratio	**N/A**	N/A
Net debt-to-total equity ratio	**N/A**	N/A

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the requirement to comply with the financial covenants attached to the Group's borrowing as disclosed in note 19(c).

22. CAPITAL AND RESERVES

(a) Share capital

	2016 No. of shares Million	2015 No. of shares Million	**2016 HK$ Million**	2015 HK$ Million
Issued and fully paid ordinary shares				
At 1 January	**709**	709	**3,641**	3,641
At 31 December	**709**	709	**3,641**	3,641

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) The Group's equity, apart from share capital and other statutory capital reserves, includes investments revaluation reserves for dealing with movement on revaluation of equity investments and the exchange reserve mainly comprises exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy note (L).

The revenue reserves for the Group at 31 December 2016 included HK$116 million (2015: HK$257 million) in respect of statutory reserves of the subsidiaries in Mainland China.

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

The Company's equity and the details of the changes in the individual components between the beginning and the end of the year are set out below:

	Share capital HK$ Million	**Revenue reserve HK$ Million**	**Total equity HK$ Million**
The Company			
At 1 January 2015	3,641	1,010	4,651
Profit and total comprehensive income	–	439	439
2014 second interim dividend paid	–	(340)	(340)
2015 first interim dividend paid	–	(99)	(99)
At 31 December 2015 and 1 January 2016	**3,641**	**1,010**	**4,651**
Profit and total comprehensive income	**–**	**496**	**496**
2015 second interim dividend paid	**–**	**(397)**	**(397)**
2016 first interim dividend paid	**–**	**(99)**	**(99)**
At 31 December 2016	**3,641**	**1,010**	**4,651**

(c) Reserves of the Company available for distribution to equity shareholders at 31 December 2016 amounted to HK$1,010 million (2015: HK$1,010 million).

(d) After the end of the reporting period, the directors declared a second interim dividend of 36 cents per share (2015: second interim dividend of 56 cents per share) amounting to HK$255 million based on 709 million issued ordinary shares (2015: HK$397 million based on 709 million issued ordinary shares). This dividend has not been recognised as a liability at the end of the reporting period.

23. COMPANY STATEMENT OF FINANCIAL POSITION

	Note	**2016 HK$ Million**	2015 HK$ Million
Non-current assets			
Interest in subsidiaries		**7,661**	7,417
Loans to subsidiaries		**–**	1,700
		7,661	9,117
Current asset			
Bank deposits and cash		**–**	3
Total assets		**7,661**	9,120
Non-current liabilities			
Bank loans		**–**	(1,700)
Current liabilities			
Trade and other payables		**(1)**	(1)
Amounts due to subsidiaries		**(3,009)**	(2,768)
		(3,010)	(2,769)
Total liabilities		**(3,010)**	(4,469)
NET ASSETS		**4,651**	4,651
Capital and reserves			
Share capital	22	**3,641**	3,641
Reserves		**1,010**	1,010
TOTAL EQUITY		**4,651**	4,651

Stephen T H Ng
Chairman

Kevin C Y Hui
Director

24. MATERIAL RELATED PARTY TRANSACTIONS

Material transactions between the Group and other related parties during the year ended 31 December 2016 are set out below:

(a) There were in existence agreements with a subsidiary of the parent company for the management, marketing, project management and technical services of the Group's hotel operations. Total fees payable under this arrangement during the current year amounted to HK$42 million (2015: HK$45 million). Such transaction constitutes a connected transaction as defined under the Listing Rules. The disclosure required by Chapter 14A of the Listing Rules are provided in Section (I) of the Directors' Report.

(b) There were in existence agreements with subsidiaries of the parent company for the property services in respect of the Group's property projects of subsidiaries. Total fees payable under this arrangement during the current year amounted to HK$78 million (2015: HK$77 million). Such transaction constitutes a connected transaction as defined under the Listing Rules. The disclosure required by Chapter 14A of the Listing Rules are provided in Section (I) of the Directors' Report.

(c) The Group leased out retail areas situated on G/F, 1/F, 2/F & 3/F of Marco Polo Hongkong Hotel to Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which a close family member of the Chairman of the Company's ultimate holding company is the settlor. The rental earned by the Group from such shops during the current year, including contingent rental income, amounted to HK$237 million (2015: HK$269 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

(d) Remuneration for key management personnel of the Group, including amounts paid to the Directors of the Company is disclosed in Note 2(b).

In addition to the above transactions, details of the Group's amounts due from and to related parties are disclosed in Note 10, 14 and 17 respectively.

25. CONTINGENT LIABILITIES

As at 31 December 2016, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank overdrafts, short term loans and credit facilities up to HK$3,280 million (2015: HK$3,130 million).

As at 31 December 2016, there were guarantees of HK$3,194 million (2015: HK$3,108 million) provided by the Group to the banks in favour of their customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's development properties. There were also mortgage loan guarantees of HK$49 million (2015: HK$20 million) provided by joint ventures and associates of the Group to the banks in favour of their customers.

The Group and the Company have not recognised any deferred income of the above guarantees for subsidiaries, joint ventures and associates as their fair value cannot be reliably measured and their transaction price was HK$Nil (2015: HK$Nil).

As at the end of the reporting period, the directors do not consider it is probable that a claim will be made against the Group and the Company under any of the guarantees.

26. COMMITMENTS

The Group's outstanding commitments as at 31 December 2016 are detailed as below:

	31 December 2016			31 December 2015		
	Committed HK$ Million	Uncommitted HK$ Million	Total HK$ Million	Committed HK$ Million	Uncommitted HK$ Million	Total HK$ Million
Investment Property						
Hong Kong	5	288	293	3	100	103
Mainland China	1,447	2,054	3,501	1,672	2,442	4,114
	1,452	2,342	3,794	1,675	2,542	4,217
Hotel						
Hong Kong	1,373	14	1,387	1,995	8	2,003
Mainland China	–	109	109	–	125	125
	1,373	123	1,496	1,995	133	2,128
Development Property						
Mainland China	488	2,043	2,531	1,302	2,157	3,459
	488	2,043	2,531	1,302	2,157	3,459
Total						
Hong Kong	1,378	302	1,680	1,998	108	2,106
Mainland China	1,935	4,206	6,141	2,974	4,724	7,698
	3,313	4,508	7,821	4,972	4,832	9,804

The expenditure for development properties included attributable amounts for developments undertaken by joint ventures and associates of HK$2,187 million (2015: HK$2,044 million) in Mainland China.

27. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Company. None of these developments have had a material effect on how the Company's results and financial position for the current or prior periods have been prepared or presented.

The Group has early adopted the complete version of HKFRS 9, "Financial Instruments" in the consolidated financial statements for the year ended 31 December 2016, and concluded that the adoption of HKFRS 9 is unlikely to have a significant impact on the Group's financial statements.

HKFRS 9 introduces new classification and measurement requirements for financial assets on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, a new expected credit loss model that replaces the incurred loss impairment model used in HKAS 39, "Financial Instruments: Recognition and Measurement", with the result that a loss event will no longer need to occur before an impairment allowance is recognised, and a new hedge accounting model where the hedged ratio is required to be the same as the one used by an entity's management for risk management purposes.

As at 1 January 2016, the Directors of the Group have reviewed and reassessed the Group's financial assets on that date and the results for the period. The initial application of HKFRS 9 has had impacts on the following financial assets and results of the Group:

(i) investments in equity securities (not held for trading) of HK$2,301 million that were previously classified as available-for-sale investments and measured at fair value at each reporting date under HKAS 39 have been designated as equity investments measured at fair value through other comprehensive income ("FVTOCI"). Group profit for the period has been reduced by HK$48 million, representing the gain on disposal of equity securities recognised through other comprehensive income instead of the income statement as previously accounted for (2015: HK$33 million profit).

(ii) impairment based on expected credit loss model on the Group's rental, sales and trade receivables have no significant impacts.

Except for the foregoing, the Group has not adopted any new standard or interpretation that is not yet effective for the current accounting period.

The "Principal accounting policies" set out on pages 94 to 111 summarise the accounting policies of the Group after the adoption of these policies to the extent that they are relevant to the Group.

28. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, Statement of cash flows:	
Disclosure initiative	1 January 2017
Amendments to HKAS 12, Income taxes:	
Recognition of deferred tax assets for unrealised losses	1 January 2017
HKFRS 15, Revenue from contracts with customers	1 January 2018
Amendments to HKFRS 2, Share-based payment:	
Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16, Leases	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 15, Revenue from contracts with customers

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

The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note (M). Currently, revenue arising from rental income is recognised over the accounting periods covered by the lease term and income from hotels operation are recognised at the time when the services are provided, whereas revenue from the sale of properties is generally recognised when the risks and rewards of ownership have passed to the customers.

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

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

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

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

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

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, the Group's income from residential property development activities will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced. It is also possible that the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears. Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers.

Currently, the Group does not apply such a policy when payments are received in advance. Advance payments are not common in the Group's arrangements with its customers, with the exception of when residential properties are marketed by the Group while the property is still under construction. In this situation, the Group may offer buyers a discount compared to the sales price payable, provided the buyer agrees to pay the balance of the purchase price early.

Currently, the revenue from property sales is recognised when the property is complete, measured at the amount received from the customer, irrespective of whether the customer pays early or on completion. However, under HKFRS 15 such advance payment schemes are likely to be regarded as including a financing component.

The Group is in the process of assessing whether this component in the Group's advance payment schemes would be significant to the contract and therefore whether, once HKFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue. Any adjustment to the transaction price under HKFRS 15, if considered necessary, would result in interest expense being recognised while the construction work is still in progress to reflect the effect of the financing benefit obtained from the customers, with a corresponding increase to revenue on sale of properties recognised when control of the completed property is transferred to the customer.

HKFRS 16, Leases

As disclosed in principal accounting policies (H), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

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

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for hotel properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated income statement over the period of the lease. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The Group is considering whether to adopt HKFRS 16 before its effective date of 1 January 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1 January 2018.

29. EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period the Directors declared a second interim dividend. Further details are disclosed in Note 7.

30. PARENT AND ULTIMATE HOLDING COMPANY

The Directors consider the parent and ultimate holding company at 31 December 2016 to be The Wharf (Holdings) Limited and Wheelock and Company Limited respectively, both incorporated and listed in Hong Kong. Both The Wharf (Holdings) Limited and Wheelock and Company Limited produce financial statements available for public use.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 2 March 2017.

PRINCIPAL ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 27 to the financial statements provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(B) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note (T).

(C) BASIS OF CONSOLIDATION

(i) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interest's proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note (F) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note (F)) or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see Note (C)(ii)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note (G)(ii)).

(ii) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Notes (C)(iii) and (G)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income. Adjustments are made on consolidation to the financial information of associates and joint ventures where necessary to ensure consistency with the accounting policies adopted by the Group.

When the Group's share of losses exceeds its interest in the associates or joint ventures, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the associates or joint ventures is the carrying amount of the investment under the equity method together with the Group's long-term interests that, in substance, form part of the Group's net investment in the associates or joint ventures.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note (F)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note (G)(ii)).

(iii) Goodwill

Goodwill represents the excess of:

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

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

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

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

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

(D) INVESTMENT PROPERTIES AND HOTEL PROPERTIES, PLANT AND EQUIPMENT

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see Note (H)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and properties that are being constructed or developed for future use as investment properties.

Investment properties are stated in the consolidated statement of financial position at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Investment properties under development are stated at cost less impairment (see note (G)(ii)) if the fair value cannot be measured reliably. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated income statement. Rental income from investment properties is accounted for as described in Note (M)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see Note (H)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in Note (H).

(ii) Hotel properties

Hotel properties are stated at cost less accumulated depreciation and impairment losses (see Note (G)(ii)). Hotel properties under development is stated at cost less impairment losses (see Note (G)(ii)).

(iii) Other property, plant and equipment held for own use

Other property, plant and equipment held for own use is stated at cost less accumulated depreciation and impairment losses (see Note (G)(ii)).

(iv) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

(E) DEPRECIATION OF HOTEL PROPERTIES, PLANT AND EQUIPMENT

Depreciation is calculated to write-off the cost of items of hotel properties, plant and equipment, less their estimated residual value, if any, using a straight line method over their estimated useful lives as follows:

(i) Investment properties

No depreciation is provided on investment properties.

(ii) Hotel properties

Depreciation is provided on the cost of the leasehold land of hotel properties over the unexpired period of the lease. Costs of buildings thereon are depreciated on a straight line basis over their estimated useful lives of not more than 40 years.

Depreciation on hotel properties under development commences when they are available for use.

(iii) Other property, plant and equipment held for own use

Depreciation is provided on a straight line basis over their estimated useful lives of these assets which vary from 5 to 10 years.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(F) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a Group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

A financial asset or financial liability (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Classification and measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVTOCI) – debt investment; FVTOCI – equity investment; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition, except if and in the period the Group changes its business model for managing financial assets.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVTOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Investment in equity securities (other than investments in subsidiaries, associates and joint ventures)

The 'equity investments' caption in the consolidated statement of financial position includes:

– Equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in the consolidated income statement; and

– Equity investment securities designated as at FVTOCI.

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets.

The Group has designated all investments in equity instruments (listed or unlisted) that are not held for trading as at FVTOCI since the application of HKFRS 9.

Financial assets: Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

– how the performance of the portfolio is evaluated and reported to the Group's management;

– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

– the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

– contingent events that would change the amount or timing of cash flows;

– terms that may adjust the contractual coupon rate, including variable rate features;

– prepayment and extension features; and

– terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the consolidated income statement.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the consolidated income statement. Any gain or loss on derecognition is recognised in the consolidated income statement.
Equity investments at FVTOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in the consolidated income statement unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses and impairment are recognised in OCI and are never reclassified to the consolidated income statement.

(ii) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognised.

In the case of equity investments, cumulative gains and losses recognised in OCI are never reclassified to the consolidated income statement but transferred to retained earnings on disposal of an investment.

(iii) Classification and measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in the consolidated income statement. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the consolidated income statement. Any gain or loss on derecognition is also recognised in the consolidated income statement.

(iv) Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the consolidated income statement.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under HKFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(G) IMPAIRMENT OF ASSETS

(i) Impairment of financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime ECL. For trade receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

In all cases, the maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Credit-impaired financial assets

At each reporting date, the Group assesses on a forward looking basis whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;

– a breach of contract such as a default or past due event;

– the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) Impairment of non-financial assets

The carrying amounts of non-financial assets other than properties carried at revalued amounts (including investments in subsidiaries in the Company's statement of financial position, investments in associates and joint ventures accounted for under the equity method (see Note (C)(ii))) and deferred tax assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated.

– **Calculation of recoverable amount**

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– **Recognition of impairment losses**

An impairment loss is recognised as an expense in the consolidated income statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds the recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, if determinable.

– **Reversal of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed (including those provided during the interim financial reporting).

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

– **Interim financial reporting and impairment**

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes (G)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(H) LEASED ASSETS

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of leased assets

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as an investment property, is accounted for as if held under a finance lease (see note (D)(i)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets held under operating lease

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see Note (D)(i)) or is held for development for sale (see Note (I) (i) and (ii)).

(I) INVENTORIES

(i) Completed properties for sale

Completed properties for sale are stated at lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised (see Note (N)), attributable to unsold units. Net realisable value is estimated by the management, based on prevailing market conditions which represents the estimated selling price less costs to be incurred in selling the property. Cost of completed properties held for sale comprise all costs of purchase, costs of conversion and costs incurred in bringing the inventories to their present location and condition.

The amount of any write down of or provision for properties held for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated income statement in the period in which the reversal occurs.

(ii) Properties under development for sale

Properties under development for sale are classified as current assets and stated at lower of cost and net realisable value. Cost includes identified costs including the acquisition cost of land, aggregate cost of development, borrowing costs capitalised (see note (N)), materials and supplies, wages, other direct expenses and an appropriate proportion of overheads. Net realisable value is estimated by the management, taking into account the expected price that can ultimately be achieved, based on prevailing market conditions and the anticipated costs to completion and costs to be incurred in selling the property.

The amount of any write down of or provision for properties under development for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated income statement in the period in which the reversal occurs.

(iii) Hotel consumables

Inventories comprise hotel consumables and are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less direct selling costs.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(J) DERIVATIVE FINANCIAL INSTRUMENTS

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

(K) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(L) FOREIGN CURRENCIES

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the statements of financial position of foreign operations are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the monthly weighted average exchange rates for the year. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. Differences arising from the translation of the financial statements of foreign operations are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve and those arising from the financing of properties under development by foreign currency borrowings are capitalised as part of the development costs. All other exchange differences are dealt with in the consolidated income statement.

On disposal of a foreign operation, the cumulative amount of the exchange differences which relate to that foreign operation is reclassified from equity to the consolidated income statement and is included in the calculation of the profit or loss on disposal.

(M) RECOGNITION OF REVENUE

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Income from hotel operations is recognised at the time when the services are rendered.

(ii) Rental income under operating leases is recognised in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased assets. Lease incentives granted are recognised as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Income arising from the sale of properties held for sale is recognised upon the later of the execution of a formal sale and purchase agreement or the issue of an occupation permit/completion certificate by the relevant government authorities, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under pre-sale deposits and proceeds.

(iv) Interest income is recognised as it accrues using the effective interest method.

(v) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(N) BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(O) INCOME TAX

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the difference between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may be capable to support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination).

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note (D)(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when related dividends are likely to be payable in the foreseeable future.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(P) EMPLOYEE BENEFITS

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(Q) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(R) FINANCIALLY GUARANTEES ISSUED, PROVISIONS AND CONTINGENT LIABILITIES

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the consolidated income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the consolidated income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note (R)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(S) RELATED PARTIES

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in (i).

(g) A person identified in (i)(a) had significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(h) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

(T) SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

Note 21 contain information about the assumptions and their risk relating to financial instruments. Other key sources of estimation uncertainty are as follows:

– **Assessment of provision for properties held under development and for sale**

Management determines the net realisable value of properties held for sale by using (1) prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers; and (2) internal estimates of costs based on quotes by suppliers.

Management's assessment of the net realisable value of properties under development for sale requires the application of a risk-adjusted discount rate to estimate future discounted cash flows to be derived from the properties under development and for sale. These estimates require judgement as to the anticipated sale prices by reference to recent sale transactions in nearby locations, rates of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions. The Group's estimates may be inaccurate and estimates may need to be adjusted in later periods.

– **Valuation of investment properties**

Investment properties are included in the consolidated statement of financial position at their market value unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time. The market value of investment properties is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential of the properties.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market selling prices and the appropriate capitalisation rate.

– **Assessment of impairment of non-current assets**

Management assesses the recoverable amount of each asset based on its value in use (using relevant rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the asset. Estimating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows. Cash flow projections for the remaining useful life of the asset and the most recent financial budgets/forecasts are approved by management.

– **Assessment of the useful economic lives for depreciation of hotel properties, plant and equipment**

In assessing the estimated useful lives of hotel properties, plant and equipment, management takes into account factors such as the expected usage of the asset by the Group based on past experience, the expected physical wear and tear (which depends on operational factors), technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service output of the asset. The estimation of the useful life is a matter of judgement based on the experience of the Group.

Management reviews the useful lives of hotel properties, plant and equipment annually, and if expectations are significantly different from previous estimates of useful economic lives, the useful lives and, therefore, the depreciation rate for the future periods will be adjusted accordingly.

– **Recognition of deferred tax assets**

The recognition of deferred tax assets requires formal assessment by the Group of the future profitability of related operations. In making this judgement, the Group evaluates, amongst other factors, the forecast financial performance, changes in technology and operational and financing cash flows.

– **Income taxes**

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that we initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

The Group is subject to land appreciation taxes and withholding tax on capital gains in Mainland China. Significant judgement is required in determining the amount of the land appreciation and capital gains, based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax and deferred income tax provision in the periods in which such taxes have been finalised with local authorities.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

– **Distinction between investment properties and owner-occupied properties**

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production of supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

PRINCIPAL SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES

As 31 December 2016

Subsidiaries	Place of incorporation/ operation	Issued share capital/ registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
#Harbour Centre (Hong Kong) Limited	British Virgin Islands	500 US$1 shares	100%	Holding company
HCDL Finance Limited	Hong Kong	HK$5,000,000 divided into 5,000,000 shares	100%	Finance
Manniworth Company Limited	Hong Kong	HK$10,000 divided into 10,000 shares	100%	Property
The Hongkong Hotel Limited	Hong Kong	HK$100,000 divided into 100,000 shares	100%	Hotel and property
#HCDL Investments Limited	Hong Kong	HK$1 divided into 1 share	100%	Holding company
Ocean New Investments Limited	British Virgin Islands	500 US$1 shares	100%	Holding company
Algebra Assets Limited	British Virgin Islands/ International	500 US$1 shares	100%	Investment
Mandelson Investments Limited	British Virgin Islands/ International	500 US$1 shares	100%	Investment
Power Castle Limited	British Virgin Islands/ International	500 US$1 shares	100%	Investment
HCDL Investments Finance Limited	Hong Kong	HK$1 divided into 1 share	100%	Finance
The Murray Limited	Hong Kong	HK$1 divided into 1 share	100%	Hotel
HCDL China Development Limited	British Virgin Islands	500 US$1 shares	100%	Holding company
HCDL China Finance Limited	Hong Kong	HK$1 divided into 1 share	100%	Finance

PRINCIPAL SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES

As 31 December 2016

Subsidiaries	Place of incorporation/ operation	Issued share capital/ registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
Cheer Sky Investment Limited	Hong Kong	HK$1 divided into 1 share	100%	Holding company
Free Boost Investments Limited	Hong Kong	HK$1 divided into 1 share	100%	Holding company
High Sea Investments Limited	Hong Kong	HK$2 divided into 2 shares	100%	Holding company
Joinhill Investments Limited	Hong Kong	HK$1 divided into 1 share	100%	Holding company
Market Favour Investments Limited	Hong Kong	HK$1 divided into 1 share	100%	Holding company
Dragon Legacy Holdings Limited	Hong Kong	HK$1 divided into 1 share	100%	Holding company
九龍倉(常州)置業有限公司 (Note (ii))	The People's Republic of China	US$169,800,000	100%	Property
蘇州高龍房產發展有限公司 (Note (i))	The People's Republic of China	RMB3,000,000,000	80%	Property
上海綠源房地產開發有限公司 (Note (iii))	The People's Republic of China	RMB70,000,000	100%	Property
南京聚龍房地產開發有限公司 (Note (ii))	The People's Republic of China	US$18,000,000	100%	Holding company
常州馬哥孛羅酒店有限公司 (Note (ii))	The People's Republic of China	US$7,000,000	100%	Hotel
廣州秀達企業管理有限公司 (Note (ii))	The People's Republic of China	HK$2,000,000	100%	Holding company

PRINCIPAL SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES

As 31 December 2016

Subsidiaries	Place of incorporation/ operation	Issued share capital/ registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
廣州譽港企業管理有限公司 (Note (iii))	The People's Republic of China	RMB5,000,000	100%	Holding company
廣州港捷企業管理有限公司 (Note (iii))	The People's Republic of China	RMB10,000,000	100%	Holding company

Associate	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to shareholders	Principal activities
上海萬九綠合置業有限公司	The People's Republic of China	Registered	27%	Property

Joint Ventures	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to shareholders	Principal activities
Speedy Champ Investments Limited	Hong Kong	Ordinary	55%	Holding company
重慶豐盈房地房開發有限公司	The People's Republic of China	Registered	55%	Property

(i) The entity is registered as a sino-foreign joint venture company under PRC law.

(ii) This entity is registered as a wholly foreign owned enterprise under PRC law.

(iii) This entity is registered as a wholly domestic owned enterprise under PRC law.

Notes:

(a) All the subsidiaries listed above were, as at 31 December 2016, indirectly held by the Company except where marked #, which are held directly by the Company.

(b) The above list gives the principal subsidiaries, associate and joint ventures of the Group which, in the opinion of the Directors, principally affect the profit and assets of the Group.

SCHEDULE OF PRINCIPAL PROPERTIES

As 31 December 2016

Address	Approximate Gross Floor Areas (sq.ft.) Total	Office	Retail	Residential	Others	Remarks	Site Area (sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
HONG KONG												
Investment Properties												
Marco Polo Hongkong Hotel (Commercial Section), Harbour City, Tsimshatsui	189,000	14,000	175,000	–	–	Note (a)	(a)	KML 91 S.A. & KML 10 S.B.	2863	1969	N/A	100%
Units at Star House, 3 Salisbury Road, Kowloon	50,800	–	50,800	–	–		N/A	KML 10 S.A.	2863	1966	N/A	100%
	239,800	14,000	225,800	–	–							
Hotel Properties												
Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui	571,000	–	–	–	571,000	(A 665-room hotel)	58,814	KML 91 S.A. & KML 10 S.B.	2863	1969	N/A	100%
The Murray, Cotton Tree Drive, Central	325,000	–	–	–	325,000		68,136	9036	2063	2017	Renovation in progress	100%
	896,000	–	–	–	896,000							
HONG KONG TOTAL	**1,135,800**	**14,000**	**225,800**	**–**	**896,000**							
MAINLAND CHINA												
Investment Property												
Suzhou International Finance Square Xing Hu Jie, Suzhou Industrial Park, Suzhou	3,221,600	1,667,000	22,600	1,276,000	256,000	(A 133-room hotel)	229,069	N/A	2047/77	2018	Superstructure in progress	80%
Hotel Property												
Marco Polo Changzhou 88 Hehai East Road, Xinbei District, Changzhou	474,000	–	–	–	474,000	(A 271-room hotel, serviced apartment and The Mansion)	842,531	N/A	2048	2014	N/A	100%
Development Properties												
Changzhou Times Palace China Dinosaur Park, Xinbei District, Jiangsu Province, Changzhou	141,000	–	–	141,000	–		3,585,273	N/A	2047/77	2016	N/A	100%
Suzhou Times City Xiandai Da Dao, Suzhou Industrial Park, Suzhou	2,912,000	–	–	2,912,000	–		5,425,454	N/A	2077	2017	Superstructure in progress	80%
	3,053,000	–	–	3,053,000	–							
Development Properties (undertaken by joint venture/associates) – Note (b)												
The U World Zone B of Jiangbei City, Jiang Bei District, Chongqing	97,000	–	14,000	83,000	–		1,002,408	N/A	2057	2016	N/A	55%
Shanghai South Station Caohejing Area Lot 278a-05/278b-02/278b-04, South Station Business Zone, Xuhui District, Shanghai	1,307,000	1,067,000	213,000	–	27,000		1,156,979	N/A	2052/62	2022	Superstructure in progress	27%
	1,404,000	1,067,000	227,000	83,000	27,000							
MAINLAND CHINA TOTAL	**8,152,600**	**2,734,000**	**249,600**	**4,412,000**	**757,000**							
GROUP TOTAL	**9,288,400**	**2,748,000**	**475,400**	**4,412,000**	**1,653,000**							

Notes:

(a) Part of Marco Polo Hongkong Hotel building.

(b) The floor area of property held through joint venture and associates is shown on an attributable basis.

(c) Total Mainland development properties area included 2,680,000 sq. ft. pre-sold areas have not yet been recognised in the financial statements.

TEN-YEAR FINANCIAL SUMMARY

HK$ Million	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Consolidated Income Statement										
Revenue	**3,558**	5,048	5,646	5,758	6,261	1,297	667	566	664	671
Core profit (Note a)	**762**	1,194	851	1,464	1,937	336	226	304	133	503
Profit attributable to shareholders	**692**	1,231	1,082	1,276	3,058	1,096	1,015	535	171	638
Dividends attributable to shareholders	**354**	496	425	553	680	170	142	142	95	129
Consolidated Statement of Financial Position										
Investment property	**8,277**	7,876	7,253	6,435	5,566	4,290	3,352	2,516	1,877	1,827
Hotel properties, plant and equipment	**6,529**	5,677	5,429	4,764	650	359	116	74	96	120
Interest in associates	**1,417**	1,608	2,059	1,925	–	–	–	–	1	1
Interest in joint ventures	**1,808**	2,039	2,127	2,162	2,082	1,769	1,757	1,651	2,587	1,965
Equity investments	**2,301**	–	–	–	–	–	–	–	–	–
Available-for-sale investments	**–**	2,450	1,550	1,340	1,541	1,119	1,744	1,193	604	2,517
Properties under development/for sale	**1,957**	2,699	4,979	7,376	7,822	8,717	7,335	6,473	4,972	985
Bank deposits and cash	**5,154**	6,447	5,185	5,825	7,731	5,842	3,522	1,124	1,258	585
Other assets	**671**	855	960	1,249	1,390	959	441	119	112	438
Total assets	**28,114**	29,651	29,542	31,076	26,782	23,055	18,267	13,150	11,507	8,438
Bank loans	**(3,250)**	(4,800)	(4,418)	(6,238)	(3,150)	(3,141)	(3,350)	(2,953)	(3,065)	(1,859)
Other liabilities	**(8,318)**	(7,521)	(7,878)	(8,391)	(8,069)	(7,635)	(3,477)	(320)	(679)	(634)
Net assets	**16,546**	17,330	17,246	16,447	15,563	12,279	11,440	9,877	7,763	5,945
Share capital: nominal value	**–**	–	–	354	354	354	354	354	236	158
Other statutory capital reserve	**–**	–	–	3,287	3,287	3,287	3,287	3,287	2,470	542
Share capital and other statutory capital reserve	**3,641**	3,641	3,641	3,641	3,641	3,641	3,641	3,641	2,706	700
Reserves	**12,188**	12,544	12,564	11,740	10,950	7,822	7,033	5,534	4,361	5,048
Shareholders' equity	**15,829**	16,185	16,205	15,381	14,591	11,463	10,674	9,175	7,067	5,748
Non-controlling interests	**717**	1,145	1,041	1,066	972	816	766	702	696	197
Total equity	**16,546**	17,330	17,246	16,447	15,563	12,279	11,440	9,877	7,763	5,945
Net debt/(cash)	**(1,904)**	(1,647)	(767)	413	(4,581)	(2,701)	(172)	1,829	1,807	1,274
Financial Data										
Per share data										
Earnings per share (HK$)										
– Core profit (Note a)	**1.08**	1.68	1.20	2.07	2.73	0.47	0.32	0.48	0.28	1.60
– Reported profit	**0.98**	1.74	1.53	1.80	4.31	1.55	1.43	0.84	0.36	2.03
Net assets value per share (HK$)	**22.33**	22.84	22.86	21.70	20.59	16.17	15.06	12.95	14.96	18.24
Dividends per share (HK cents)	**50.00**	70.00	60.00	78.00	96.00	24.00	20.00	20.00	20.00	29.00
Financial ratios										
Net debt to total equity (%)	**N/A**	N/A	N/A	2.5%	N/A	N/A	N/A	18.5%	23.3%	21.4%
Return on shareholders' equity (%) (Note b)	**4.3%**	7.6%	6.9%	8.5%	23.5%	9.9%	10.2%	6.6%	2.7%	11.1%
Dividend cover (Times)										
– Core profit (Note a)	**2.2**	2.4	2.0	2.6	2.8	2.0	1.6	2.1	1.4	3.9
– Reported profit	**2.0**	2.5	2.6	2.3	4.5	6.4	7.2	3.8	1.8	4.9
Interest cover (Times) (Note c)	**14.3**	18.5	7.3	17.4	52.2	20.1	11.0	12.0	5.1	37.5

Notes:

(a) Core profit excludes changes in investment property revaluation and impairment provision for hotel properties under development.

(b) Return on shareholders' equity is based on profit attributable to shareholders over average shareholders' equity during the year.

(c) Interest cover is based on EBITDA over finance costs (before capitalisation and fair value gain/loss).

(d) Certain figures have been reclassified or restated to comply with the prevailing HKFRSs.