渝太地產集團有限公司
Y. T. REALTY GROUP LIMITED
Stock Code : 75

2016
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTOR

Cheung Chung Kiu[1]
(Chairman and Managing Director)
Wong Chi Keung[2]
Yuen Wing Shing
Tung Wai Lan, Iris

NON-EXECUTIVE DIRECTOR

Lee Ka Sze, Carmelo[3]
Wong Yat Fai[4]

INDEPENDENT NON-EXECUTIVE DIRECTOR

Ng Kwok Fu
Luk Yu King, James
Leung Yu Ming, Steven

AUDIT COMMITTEE

Luk Yu King, James *(Chairman)*
Lee Ka Sze, Carmelo[3]
Ng Kwok Fu
Leung Yu Ming, Steven

REMUNERATION COMMITTEE

Leung Yu Ming, Steven *(Chairman)*
Cheung Chung Kiu
Ng Kwok Fu

NOMINATION COMMITTEE

Cheung Chung Kiu *(Chairman)*
Ng Kwok Fu
Leung Yu Ming, Steven

AUTHORISED REPRESENTATIVE

Cheung Chung Kiu
Yuen Wing Shing *(Alternate to Cheung Chung Kiu)*
Yuen Wing Shing
Cheung Chung Kiu *(Alternate to Yuen Wing Shing)*

COMPANY SECRETARY

Albert T. da Rosa, Jr.

REGISTERED OFFICE

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Bermuda

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EXTERNAL AUDITORS

Ernst & Young

PRINCIPAL BANKER

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The Bank of East Asia, Limited

LEGAL ADVISER

Bermuda:
Conyers Dill & Pearman

Hong Kong:
Woo, Kwan, Lee & Lo
Cheung, Tong & Rosa Solicitors

REGISTRAR & TRANSFER OFFICE

Bermuda:
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Pembroke HM08
Bermuda

Hong Kong:
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183 Queen's Road East
Wanchai
Hong Kong
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SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 75

1 appointed as managing director on 29 February 2016
2 resigned as managing director and executive director on 29 February 2016
3 resigned as non-executive director and audit committee member on 29 February 2016
4 resigned as non-executive director on 29 February 2016

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

On behalf of the board of directors, I am pleased to report the following results and operations of the Group for the year ended 31 December 2016.

RESULTS

The audited consolidated net profit attributable to shareholders after tax for the year was HK$356.1 million and the earnings per share amounted to HK44.5 cents, as compared to net profit of HK$534.4 million and the earnings per share of HK66.8 cents for the year ended 31 December 2015. The net profit attributable to shareholders after tax for 2016 represents a 33.4% decrease from 2015.

DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil). No interim dividend was paid during the year (2015: Nil).

On 28 January 2016, a special cash dividend in the amount of HK$3.8 per share was declared, and it was paid to the shareholders on 4 March 2016, totalling HK$3,038.3 million.

On 29 September 2016, a special dividend in the form of distribution in specie of 155,254,432 shares of The Cross-Harbour (Holdings) Limited ("Cross-Harbour") was proposed by the board of directors. It was approved at the special general meeting held on 14 November 2016 and was completed on 30 November 2016.

NET ASSET VALUE

The consolidated net asset value of the Group as at 31 December 2016 was HK$1,456.6 million (2015: HK$6,616.0 million). The consolidated net asset value per share as at 31 December 2016 was HK$1.82 based on 799,557,415 shares in issue as compared to HK$8.27 per share based on 799,557,415 shares in issue as at 31 December 2015.

BUSINESS REVIEW

During 2016, the market conditions continued to be difficult as we witnessed great market volatility and uncertainties in global economy. In June, UK voted by referendum to leave the European Union and its result has caused further uncertainty on the weak European markets and dampened its pace for long-term recovery.

The US market has shown signs of slow economic recovery during the year. The results of the US presidential election in November caused mixed feelings of the magnitude and certainty of its economic recovery and its impact on global trade environment. Continuous upward movement of interest rates has been anticipated though it would only be expected at slow pace. Nonetheless, worries of interest rate hikes would inevitably create negative impact on global economic stability to certain extent.

Other geopolitical risks continued, such as violent incidents and refugee problems in Europe and Middle East, and disputes in South China Sea. Despite the uncertainties and volatility of the global market, the US and some major stock markets had experienced substantial increase during the period.

BUSINESS REVIEW *(continued)*

For Mainland China, the pace of economic growth continued to slow down and it was below the 7% mark as the China stock market and consumers' spending remained weak.

In Hong Kong, the property market continued to be weak with the retail sector being the weakest performer. Rental and property value of the prime retail areas had experienced substantial downward adjustments. It was inevitable as the retail segment of our local economy was most impacted by the weak spending of the Mainland tourists due to devaluation of Renminbi against our local currency which exchange rate is pegged to US dollar together with the effects of the slow economy and weak stock market in the Mainland.

The Group's net profit attributable to shareholders for the year was HK$356.1 million as compared to the net profit of HK$534.4 million in 2015, representing a 33.4% decrease. Revenue for the year decreased by 69.5% to HK$66.7 million as compared to HK$218.7 million reported in 2015. The decrease in overall revenue was primarily due to the disposal of the two Hong Kong investment properties at end of February 2016.

During the year up to the completion of the Group's distribution in specie of the shares of the then associated company, Cross-Harbour, as special dividend to the shareholders, the Group's share of profit after taxation from the associated company, for the year was HK$176.2 million (2015: HK$258.2 million), a decrease of 31.8% from last year. Cross-Harbour is listed on The Stock Exchange of Hong Kong Limited and it is engaged in investment and management of tunnels, motoring schools and highway and tunnel toll system.

Property Business

As at the end of 2016, the Group's major investment properties include:

1 Chapel Place, London, UK
1 Harrow Place, London, UK

Gross rental income for the year amounted to HK$64.9 million which represents a decrease of about 69.1% when compared with last year's rental income of HK$210.0 million. The decrease in rental income was mainly due to the disposal of the two Hong Kong investment properties at end of February 2016.

Revaluation of the Group's portfolio of properties resulted in a surplus of HK$55.3 million (2015: HK$137.1 million). The revaluation surplus was reported in the statement of profit or loss.

BUSINESS REVIEW *(continued)*

Material Acquisition and Disposal

In December 2015, the Group entered into a disposal agreement to dispose of the entire issued share capital of its then indirect wholly-owned subsidiaries, Y. T. Properties International Limited ("Y. T. Properties International") and Y. T. Property Services Limited ("Y. T. Property Services"). Y. T. Properties International through its direct and indirect wholly-owned subsidiaries owned 100% interest of Century Square and Prestige Tower. Y. T. Property Services and its wholly-owned subsidiary were engaged mainly in property management and related services and primarily provided their services to Century Square and Prestige Tower. The transaction was completed on 29 February 2016.

In December 2015, the Group also entered into an acquisition agreement to acquire from its joint venture partner 50% of the issued share capital of Solent Ventures Limited which indirectly own 100% of a prime commercial property, 1 Chapel Place in London, UK (the "London Property"). The acquisition enabled the Group to expand its overseas property portfolio by increasing its interest in the London Property from 50% to 100%. The transaction was completed on 29 February 2016. The rental income from 1 Chapel Place has been stable and the occupancy rate was 100% as at 31 December 2016.

On 18 July 2016, the Group entered into an agreement to acquire directly and indirectly the entire issued units in a property unit trust, Grove Property Unit Trust 4, which owns a prime hotel property at 1 Harrow Place in London, UK. The property is leased to Travelodge Hotels. The total purchase consideration is GBP42.3 million (equivalent to approximately HK$434.4 million). Completion took place on the same day immediately following the entering into of the agreement. The rental income from 1 Harrow Place has been stable and the occupancy rate was 100% as at 31 December 2016.

Further details of the above mentioned transactions were already disclosed in the relevant announcements and circular issued by the Company.

Distribution in Specie of Shares in Cross-Harbour as Special Dividend

On 29 September 2016, the Company announced the approval by the board of directors of a special dividend in the form of distribution in specie of 155,254,432 Cross-Harbour shares ("Distribution in Specie") to our shareholders. It was approved at the special general meeting held on 14 November 2016 and was completed on 30 November 2016. Following completion of the Distribution in Specie, the Group did not own any shares in Cross-Harbour and the Group would no longer share the results of Cross-Harbour thereafter.

Further details of the Distribution in Specie were already disclosed in the relevant announcement and circular issued by the Company.

FINANCING AND LIQUIDITY

Financial expenses for the year ended 31 December 2016 amounted to HK$0.5 million (2015: HK$2.8 million), decreased by 83.7% when compared with last year as the Group's bank borrowings were fully paid off in February 2016.

As at 31 December 2016, the Group's cash and cash equivalents was HK$390.4 million (2015: HK$417.1 million), and the Group did not have any bank borrowings (2015: HK$81.6 million). The gearing ratio of the Group was zero (2015: zero). The gearing ratio, if any, is calculated as the ratio of net bank borrowings to shareholders' funds.

Following the disposal of the Group's major investment properties in Hong Kong, the increased interest to 100% of 1 Chapel Place in February 2016 and the acquisition of 1 Harrow Place in July 2016, the Group's main source of rental income is denominated in British Pound Sterling which is subject to foreign exchange rate fluctuation.

With cash and recurring rental income, the Group has sufficient resources to meet the foreseeable funding needs for working capital and capital expenditure.

PROSPECTS AND STRATEGIES

For the coming 2017, the Group expects volatility and uncertainty in the global economy will continue. The impact of Brexit, implementation and execution of domestic and foreign policies by the newly elected US president, pending interest rate hike by US Federal Reserve, and the unstable geopolitical environment will no doubt pose threats to market confidence and may dampen economic recovery on a global scale.

In Hong Kong, the local economy will continue to be affected by the economic development in Mainland China. It is expected that local property market and economic recovery will be weak in the near future due to weakness in retails and pending interest rate hikes.

In anticipation of volatile and uncertain economic and political environment ahead, the Group will continue to adopt a cautious but proactive approach to look for sound and stable investment opportunities to produce sustainable returns for our shareholders.

STAFF

As at 31 December 2016, the Group employed 4 staff members. Staff remuneration is reviewed by the Group from time to time. In addition to salaries, the Group provides staff benefits including medical insurance, pension scheme and discretionary vocational tuition/training subsidies. Share options and bonuses are also available to employees of the Group at the discretion of the directors depending upon the financial performance of the Group.

APPRECIATION

I would like to take this opportunity to thank our shareholders and business partners for their continuing support, and the Group's dedicated management and staff for their valuable contributions during the past year.

Cheung Chung Kiu
Chairman and Managing Director

Hong Kong, 23 March 2017

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS / SENIOR MANAGEMENT

Cheung Chung Kiu, aged 52, was appointed Chairman of the Company on 28 September 2000 and has further assumed the role of Managing Director since 29 February 2016. He is a member of the Executive Committee and the Remuneration Committee of the Company, as well as a member and the chairman of the Nomination Committee of the Company. He also holds directorships in certain other members of the Group. Mr. Cheung set up Chongqing Industrial Limited ("Chongqing Industrial", a company engaged mainly in the trading business in the PRC) in 1985 and has over 20 years of experience in property development and investment in the PRC. He is the founder and chairman of Yugang International Limited ("Yugang International") and chairman of The Cross-Harbour (Holdings) Limited ("Cross-Harbour") and C C Land Holdings Limited ("C C Land"), all being public listed companies in Hong Kong. He is a director of Palin Holdings Limited, Chongqing Industrial, Yugang International (B.V.I.) Limited ("Yugang BVI") and Funrise Limited ("Funrise") which, together with Yugang International, are companies disclosed in the section headed "Other Persons' Interests and Short Positions" on page 40.

Yuen Wing Shing, aged 70, was appointed Executive Director of the Company on 28 September 2000 and is a member of the Executive Committee of the Company and director of certain other members of the Group. Mr. Yuen holds a diploma in management studies from The Hong Kong Polytechnic University. Prior to joining the Company, he had held senior management positions with a major bank in Hong Kong for over 20 years. He is the managing director of Yugang International, an executive director of Cross-Harbour and a director of Yugang BVI and Funrise.

Tung Wai Lan, Iris, aged 51, was appointed Executive Director of the Company on 28 September 2000 and is a member of the Executive Committee of the Company and director of certain other members of the Group. Ms. Tung holds a master of philosophy degree from The Chinese University of Hong Kong. She is an executive director of Cross-Harbour.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ng Kwok Fu, aged 45, was appointed Independent Non-executive Director of the Company on 30 September 2004 and is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Ng holds a certificate in accounting from Grant MacEwan Community College of Canada. He has over 20 years of experience in the marketing, trading, purchasing and developing of construction materials as well as in technical control, support and management in building projects. He is an independent non-executive director of Yugang International and Cross-Harbour.

Luk Yu King, James, aged 62, was appointed Independent Non-executive Director of the Company on 10 September 2007 and is a member and the chairman of the Audit Committee of the Company. Mr. Luk graduated from The University of Hong Kong with a bachelor of science degree. He is a fellow of the Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Certified Public Accountants and an ordinary member of the Hong Kong Securities and Investment Institute. He has over 10 years of experience in corporate finance and in securities & commodities trading business, working with international and local financial institutions. He is an independent non-executive director of Yugang International and Cross-Harbour.

Leung Yu Ming, Steven, aged 57, was appointed Independent Non-executive Director of the Company on 1 October 2007 and is a member of the Audit Committee and the Nomination Committee of the Company, as well as a member and the chairman of the Remuneration Committee of the Company. Mr. Leung received his bachelor of social science degree from The Chinese University of Hong Kong and master's degree in accountancy from Charles Sturt University of Australia. He is an associate of The Institute of Chartered Accountants in England and Wales and a fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong. He is also a certified practising accountant in Australia and a practising certified public accountant in Hong Kong. Mr. Leung commenced public practice in auditing and taxation in 1990 and is currently a senior partner in a CPA firm. He has over 30 years of experience in assurance, financial management and corporate finance, having worked previously in the International Finance and Corporate Finance Department of Nomura International (Hong Kong) Limited as assistant vice president. He is an independent non-executive director of Suga International Holdings Limited, Yugang International, Cross-Harbour and C C Land, all being public listed companies in Hong Kong.

CORPORATE GOVERNANCE REPORT

SHAREHOLDER VALUE

The Company has always been committed to upholding the principles of good corporate governance. These principles highlight an effective board, sound risk management and internal control systems as well as transparency and accountability. The board considers such commitment essential in balancing the interests of various stakeholders and the Company and its subsidiaries (the "Group") as a whole. The Company sees to it that the corporate governance agenda is focused on improving performance and not just bogged down in conformity and compliance.

CORPORATE GOVERNANCE

This report sets out the Company's application in the year to 31 December 2016 of the Corporate Governance Code (the "CG Code") set out within Appendix 14 to the Main Board Listing Rules (the "Listing Rules"). To ensure that governance standards are met, and that processes are in place to ensure continuous improvements, the full board assumes the corporate governance duties rather than delegates the responsibility to a committee.

The board is responsible for discharging the corporate governance functions prescribed under the CG Code.

During the year up to the date of this report, the board conducted an annual review of (a) the Company's policies and practices on corporate governance; (b) the training and continuous professional development of directors (including senior management); (c) the Company's policies and practices on compliance with legal and regulatory requirements; and (d) the conduct codes applicable to employees and directors. The board also reviewed the Company's compliance with the CG Code at regular intervals and relevant disclosure in the interim report and in this report. In the opinion of the board, the Company complied with the principles and the code provisions of the CG Code in all respects throughout the year save for the deviations described below.

Mr. Cheung Chung Kiu ("Mr. Cheung") is the chairman of the board and has assumed the role of managing director since 29 February 2016 following the resignation of former managing director and executive director, Mr. Wong Chi Keung ("Mr. Wong"), on that date. As a result, the Company has deviated from A.2.1 of the CG Code to the extent that the roles of chairman and chief executive have both been performed by Mr. Cheung since 29 February 2016. However, in view of the structure and composition of the board and the reduced operations of the Group in Hong Kong after completion of the disposal of Prestige Tower and the shops and offices at Century Square in Hong Kong on 29 February 2016 (as disclosed in the announcement published by the Company on that date), the board considers that vesting the roles of both chairman and managing director in Mr. Cheung can facilitate the effective implementation and execution of its business strategies by, and ensure a consistent leadership for, the Group. Further, a balance of power and authority between the board and management can be ensured by the operation of the board, whose members (including the three independent non-executive directors) are individuals of high calibre with ample experience, such that the interests of shareholders can be safeguarded. The Company will from time to time review the structure and composition of the board to ensure that a balance of power and authority between the board and management is appropriately maintained for the Group.

CORPORATE GOVERNANCE *(continued)*

With the exception of Mr. Wong who resigned from office on 29 February 2016, no director has a formal letter of appointment setting out the key terms and conditions of his/her appointment. The Company has therefore deviated from D.1.4 of the CG Code.

This notwithstanding, every director, including those appointed for a specific term, shall be subject to retirement by rotation, removal, vacation or termination of the office as a director, and disqualification to act as a director in the manner specified in the Company's bye-laws, applicable laws and the Listing Rules. Shareholders are sent (at the same time as the notice of the relevant general meeting) a circular containing all the information reasonably necessary to enable them to make an informed decision on whether to vote for or against the ordinary resolution to approve the re-election of each retiring director who stands for re-election at the meeting, including the information required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

INSIDE INFORMATION

The board is responsible for ensuring the Group's compliance with its disclosure obligations regarding inside information, and has appointed a disclosure group with specific designated duties to assist it in, among other things, overseeing and co-ordinating the disclosure of inside information. The procedures and internal controls for the handling and dissemination of inside information are given in a policy (the "PSI Policy') that was adopted by the Company to ensure that it is able to meet relevant obligations under Part XIVA of the Securities and Futures Ordinance (Cap. 571) (the "SFO"). The PSI Policy applies to the directors, officers and employees of the Group.

Under the PSI Policy, the Company must disclose inside information to the public by way of an announcement as soon as reasonably practicable unless the information falls within any of the safe harbours described under the SFO. Any director, officer or employee who becomes aware of a matter, development or event that he or she considers to be, or potentially to be, inside information shall report it promptly to the disclosure group. Before the relevant information is fully disclosed to the public, the disclosure group should take reasonable precautions to ensure that the information is kept strictly confidential. Where it is believed that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the information should be disclosed immediately to the public. If the disclosure group needs time to clarify the details of, and the impact arising from, an event or a set of circumstances before it is in a position to issue a full announcement to properly inform the public, the disclosure group should consider issuing a "holding announcement" which details as much ascertainable information of the subject matter as possible and sets out the reasons why a fuller announcement cannot be made. Following a holding announcement, the disclosure group should ensure that a full announcement is made as soon as reasonably practicable. In the event that confidentiality has not been maintained and it is not able to make a full announcement or a holding announcement, the disclosure group

INSIDE INFORMATION *(continued)*

should consider applying for a suspension of trading in the Company's securities, subject to approval of the board, until disclosure can be made. All inside information related announcements must be properly approved by the board before publication, and all unpublished inside information must be kept in strict confidence until a formal announcement is made. The disclosure group must further ensure that access to unpublished inside information is given only to employees on a "need-to-know" basis for discharging their duties. Apart from reporting to the disclosure group, every director, officer or employee who possesses or has been given access to unpublished inside information must not disclose, discuss or share such information to or with any other parties within or outside the Group. The PSI Policy also sets out the criteria for advance disclosure of inside information to certain categories of people as may be necessary in the circumstances. In this case, the disclosure group should monitor the situation so that disclosure may be made as soon as reasonably practicable if there is any leakage of information. Directors, officers and employees must refrain from dealing in the shares of the Company at any time when they are in possession of unpublished inside information. Securities dealings are governed by securities codes applicable to relevant employees and directors, as described in the section below.

SECURITIES DEALINGS

Directors' dealings are governed by a code adopted by the Company (the "Securities Code") (of which the Model Code for Securities Transactions by Directors of Listed Issuers set out within Appendix 10 to the Listing Rules as amended from time to time (the "Model Code") forms part). Each director will be given a copy of the Securities Code at the time of his or her appointment and a copy of the revised Securities Code in a timely manner. Directors will be notified in advance of the commencement of each period during which they are not allowed to deal, or are advised not to deal, in the Company's securities with reminders of their obligations under both codes.

All directors confirmed that they had complied with the required standard set out within the Model Code and the Securities Code throughout the year.

The Company has also adopted a code for relevant employees (within the meaning of the CG Code) regarding securities transactions on terms no less exacting than the Model Code. Relevant employees will be notified in advance of the commencement of each period during which they are not allowed to deal, or are advised not to deal, in the Company's securities with reminders of their obligations under the code.

THE BOARD

Corporate governance functions, as noted above, are performed by the board which assumes responsibility for leadership and control of the Company. Directors being pillars of corporate governance act at all times honestly and exercise care, diligence and skill in the discharge of their duties. The board is collectively responsible for promoting the success of the Company and seeks to balance broader stakeholder interests and those of the Group.

Board balance

The board, which is chaired by Mr. Cheung Chung Kiu, comprised nine members at the beginning of the year. On 29 February 2016, the managing director (who was executive director) and two non-executive directors resigned, resulting in a six-member board. All of the six remaining members served on the board throughout the year up to the date of this report. The composition of the board is shown in the corporate information section on page 1.

Brief biographical details of the directors appear in the directors and senior management section on pages 7 and 8.

The Company embraces the benefits of having a diverse board and directs that the review of this be a collective effort of the board and the nomination committee. The appointment or re-appointment of a director shall first be considered by this committee with reference to the policies adopted by the Company governing the nomination and diversity of board members. Recommendations of the committee will then be put forth at the next board meeting for directors' consideration and approval, as appropriate. In designing board composition, the balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business will all be taken into account.

In the opinion of the nomination committee, an appropriate level of diversity on the board has been achieved, and a balanced composition of executive directors and non-executive directors (including independent non-executive directors), the latter being of sufficient calibre and number for their views to carry weight in the board's deliberations, has been maintained, throughout the year. Further, the above changes in the board after the year end can be managed without undue disruption. The committee has noted that none of the independent non-executive directors has any interests or relationships that could materially interfere with his independent judgment and concluded that all independent non-executive directors remain independent.

Board meetings are held regularly four times a year and additionally as needed to discharge the board duties effectively. Regular scheduled meetings are also held by the board committees to discharge their duties effectively. Non-executive directors (including independent non-executive directors), as equal board members, give the board and its committees on which they serve the benefit of their skills, expertise and diverse backgrounds and qualifications through regular meeting attendance and active participation. They also attend general meetings and develop a balanced understanding of the views of shareholders.

THE BOARD *(continued)*

Attendance at board and general meetings

Five board meetings and three general meetings were held during the year. Attendance of each director at the above meetings is shown below.

	No. of meetings attended/held	
	general meeting[6]	board meeting[7]
Executive Director		
Cheung Chung Kiu *(Chairman and Managing Director)* [1]	3/3	5/5
Wong Chi Keung [2]	1/3	0/5
Yuen Wing Shing	3/3	5/5
Tung Wai Lan, Iris	2/3	5/5
Non-executive Director		
Lee Ka Sze, Carmelo [3]	1/3	0/5
Wong Yat Fai [3]	1/3	0/5
Independent Non-executive Director		
Ng Kwok Fu [4]	3/3	5/5
Luk Yu King, James [5]	3/3	5/5
Leung Yu Ming, Steven [5]	3/3	5/5

Notes:

1 Mr. Cheung Chung Kiu was appointed as managing director on 29 February 2016.

2 Mr. Wong Chi Keung resigned as managing director and executive director on 29 February 2016.

3 Mr. Lee Ka Sze, Carmelo and Mr. Wong Yat Fai resigned as non-executive director on 29 February 2016.

4 Mr. Ng Kwok Fu was appointed for a term commencing 21 May 2015 and ending at the close of the annual general meeting in 2018.

5 Mr. Luk Yu King, James and Mr. Leung Yu Ming, Steven were appointed for a term commencing 30 May 2014 and ending at the close of the forthcoming annual general meeting.

6 Two out of the three general meetings were held after 29 February 2016.

7 All of the five board meetings were held after 29 February 2016.

8 Non-executive directors are subject to retirement by rotation and eligible for re-election in accordance with the Company's bye-laws and all applicable laws.

Apart from the above, the chairman also held a meeting with the independent non-executive directors without the executive directors present during the year.

THE BOARD *(continued)*

The appointment of management

The board, led by the chairman, is accountable to shareholders for the overall management and performance of the Group. This requires continuing attention, the board therefore appoints management, which is made up of executive committee members, with additional members from the second line of management. The managing director in turn delegates aspects of the management and administration functions to senior executives who report directly to him on a regular basis.

Delegations to management and reserving matters for the board

The board sets the business strategy of the Group and monitors its development. It delegates other matters to management while reserving certain decisions and actions for itself and performing them effectively. There is a written statement of matters reserved for the board and those delegated to management. These arrangements are reviewed on an annual basis to ensure that they remain appropriate to the needs of the Company.

This statement recognises nine broad categories into which reserving matters for the board may fall, namely (1) board and senior management; (2) relations with the members and stakeholders; (3) financial matters; (4) business strategy; (5) capital expenditures; (6) lease or purchase of buildings; (7) major transactions not included in the budget; (8) actions or transactions involving legality or propriety; and (9) internal control and reporting systems.

The board sees to it that management is managing properly and does not exceed its remit. The statement gives clear directions as to the powers of management. These include executing the business strategies and initiatives adopted by the board, approving investments and divestments as well as managing the Group's assets and liabilities in accordance with the policies and directives of the board. Management carries out such specific duties as to prepare interim and annual accounts/reports, and to implement and monitor the Company's financial controls and systems of risk management and internal control. Management typically meets each month to review the operating and financial performance of the Group against agreed budgets and targets.

Supply of and access to information

The board and individual directors have separate and independent access to senior management at all times. The management ensures that the board and its committees receive adequate information, board papers and related materials in a timely manner to enable them to make informed decisions. All directors have access to the advice and services of the company secretary, who is responsible to the board to ensure that board procedures are being followed and that applicable rules and regulations are being complied with. Every director or board committee member can seek independent professional advice in appropriate circumstances at the Company's expense.

THE BOARD *(continued)*

Directors' responsibilities

On appointment to the board, each director receives an induction package covering the latest information about the financial position of the Group as well as guidelines on directors' duties and corporate governance. In addition, all members of the board are provided with monthly updates so that they can have a balanced and understandable assessment of the Group's performance, position and prospects. New directors are welcome to visit the operating divisions to gain a proper understanding of the Group's business operations.

The mini-library maintained for the company secretarial department is open to all directors. Stocked with corporate publications and governance procedures, it also collects applicable rules, ordinances, codes and acts. Directors are welcome to visit the library and borrow those materials.

The Company recognises directors' need for continuous professional development and ensures that sufficient training opportunities are being provided to the directors from time to time to develop and refresh their knowledge and skills. During the year, the Company continued to arrange and fund suitable training for its directors.

According to the records provided to the Company, each director received no less than five hours of training through seminars, programmes, and the like, or reading during the year.

Insurance cover

The Company has appropriate insurance cover in respect of legal action against its directors and officers. The extent of insurance cover is reviewed by management on an annual basis.

CHAIRMAN AND MANAGING DIRECTOR

The chairman of the board, Mr. Cheung Chung Kiu, has assumed the role of managing director since 29 February 2016 following the resignation of former managing director and executive director, Mr. Wong Chi Keung, on that date. Although the roles of chairman and chief executive have both been performed by the same individual since 29 February 2016, in view of the current structure and composition of the board and operations of the Group, the board considers that this can facilitate the effective implementation and execution of its business strategies by, and ensure a consistent leadership for, the Group. Further, a balance of power and authority between the board and management can be ensured by the operation of the board, whose members (including the three independent non-executive directors) are individuals of high calibre with ample experience, such that the interests of shareholders can be safeguarded. The Company will from time to time review the structure and composition of the board to ensure that a balance of power and authority between the board and management is appropriately maintained for the Group.

As chairman, Mr. Cheung Chung Kiu provides leadership for the board, ensuring its effectiveness in all aspects of its role. In his capacity as managing director, he provides planning and implementation with the support of the management.

CHAIRMAN AND MANAGING DIRECTOR *(continued)*

The chairman ensures that all directors are properly briefed on issues arising at board meetings and that all key and appropriate issues are discussed by the board in a timely manner. Board meetings for each year are scheduled in advance to give all directors an opportunity to attend, and are structured to encourage open discussion. All board members are encouraged to update their knowledge of and familiarity with the Group through active participation at board meetings.

The chairman settles the agenda for each individual board meeting, taking into account any additional items arising from current operating issues, as well as such other matters as may be raised by the other directors with him, who can include them on the agenda. The agenda and accompanying board papers are sent in full to all directors where possible at least three days before the time appointed for the meeting.

It is also the chairman's responsibility to control board meetings, to lead discussions to clear conclusions, and to satisfy himself that the secretary of the meeting has understood each conclusion reached. The company secretary and financial controller attend the meetings to advise on corporate governance and accounting and financial matters, where appropriate.

Minutes of board meetings and meetings of board committees are kept by a duly appointed secretary of the meeting and open for inspection by any director. Draft and final versions of minutes of board meetings are sent to all directors for their comments and records respectively.

ACCOUNTABILITY AND AUDIT

Financial reporting

The directors are responsible for preparing the accounts. The board seeks to give a balanced, clear and understandable assessment in annual and interim reports, other price-sensitive announcements and other financial disclosures required by the Listing Rules. It also does so for reports to regulators and information disclosed under statutory requirements.

The directors are also responsible for the integrity of financial information and for ensuring its timely disclosure. Arrangements are made which will allow them to be satisfied that the accounts are true and fair, which accurately disclose the financial position of the Company and comply with statutory requirements and applicable accounting standards.

Risk management and internal control

The board is responsible for ensuring that the Group maintains appropriate and effective risk management and internal control systems (the "systems") to safeguard shareholders' investment and the Company's assets and hence for taking reasonable steps to prevent and detect fraud and other irregularities. The Company has in place a risk management structure, comprising the board, the audit committee, the internal audit function and management. The board evaluates and determines the nature and extent of the risks that should be taken in achieving the Company's strategic objectives, and oversees management in the design, implementation and monitoring of the systems, through the audit committee and the internal audit function, and management provides a confirmation to the board on the system effectiveness.

ACCOUNTABILITY AND AUDIT *(continued)*

Risk management and internal control *(continued)*

While acknowledging responsibility for the systems and for reviewing their effectiveness, the board recognises that they are designed to assist the Company in managing, rather than eliminating, the risk of failure to achieve its business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The system review is an ongoing process, being conducted in turn by management, by the internal audit function and the audit committee, and, ultimately, by the board. Each year, the audit committee receives an internal audit report and a management report with respect to the operational aspects of internal controls over the areas of key risk identified. Any material internal control defects, and recommendations for resolving the defects, are identified and made to the board as appropriate. Based on those reports, the audit committee conducts relevant review and reports to the board, highlighting any areas where action or improvement is needed. The board reviews the effectiveness of the systems, taking into account the views and recommendations of the audit committee, and reports to shareholders by way of disclosure in this report.

Using the above process, the board scheduled a meeting in December 2016 and an additional meeting in March 2017 and reviewed the Company's compliance with the risk management and internal control code provisions during the year. The review covered all material controls, including financial, operational and compliance controls, and gave particular consideration to the items under C.2.2 and C.2.3 of the CG Code. They are: the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions; the changes in the nature and extent of significant risks, and the Company's ability to respond to changes to its business and the external environment; the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and the work of its internal audit function; the extent and frequency of communication of monitoring results to the audit committee; significant control failings or weaknesses and their impacts on the Company's financial performance or condition; and the effectiveness of the Company's processes for financial reporting and Listing Rule compliance. Nothing wrong or improper with respect to any of the foregoing items was noted on both occasions.

The Company's process for identifying, evaluating, and managing significant risks, as well as the main features of the systems, are described in the sub-section headed "*Risk management process*" below. In addition, the Company has adopted procedures and internal controls governing the handling and dissemination of inside information, as described in the inside information section on pages 10 and 11.

The risk management process and the procedures and internal controls for the handling and dissemination of inside information were in place throughout the year up to the date of this report.

ACCOUNTABILITY AND AUDIT *(continued)*

Risk management and internal control *(continued)*

Risk management process

The board acknowledges that its risk assessment process provides a reliable basis for determining appropriate risk responses. The business operation of the Group exposes the Group to various risks. The board is responsible for identifying and assessing risks so that appropriate risk management policies and strategies can be defined to deal with the risks identified. Management seeks to have risk management features embedded in business operations as well as in functional areas such as property investment, management, legal, and finance.

The risk management process includes the establishment of risk context (strategic, organisational and operational), the identification of risk factors, the analysis and evaluation of risk levels and the related impacts on the business performance of the Group, prioritisation of risk factors, selection and implementation as well as evaluation of the control mechanisms/activities which contribute to mitigating the risk of business disruptions or non-compliance with applicable rules and regulations. The management is delegated to perform risk assessment by reviewing and updating the risk profiles. The scope of risk review of the Group includes strategic, compliance, operations and financial risks, which are further divided into various risk categories, risk titles and descriptions. Since the risk profile may vary and may be valid for only a certain period of time, the management is responsible for monitoring any risk changes as well as the effectiveness of the related control mechanisms and/or control activities by conducting reviews on the overall risk profile on an as-needed basis but at least once a year.

The board, together with the audit committee and the internal audit function, regularly assesses the effectiveness of the systems established and maintained by management, and ensures that management has performed its duty to have effective systems.

BOARD COMMITTEES

The board is supported in its decisions by the four principal committees described below. The terms of reference of all except the executive committee are available on the website of the Company.

The executive committee

In directing and supervising the Company's affairs, the board is supported by an executive committee whose membership is exclusive to executive directors, who also make up senior management.

As shown in the corporate information section on page 1, there were four executive directors at the beginning of the year. On 29 February 2016, Mr. Wong Chi Keung (managing director and executive director) resigned, thereby reducing the number of executive directors to three. All of the three remaining members served on the committee throughout the year up to the date of this report.

The executive committee is vested with the powers of the directors by the Company's bye-laws or otherwise expressly conferred upon them, as defined by its terms of reference.

BOARD COMMITTEES *(continued)*

The remuneration committee

The remuneration committee, which is chaired by Mr. Leung Yu Ming, Steven, comprises three members, as shown in the corporate information section on page 1. All members served on the committee throughout the year up to the date of this report.

This committee supports the board in determining the remuneration packages of individual executive directors. It further assists the board in making recommendations on the Company's remuneration policy and structure for all directors and senior management, in reviewing and approving the management's remuneration proposals as well as in making recommendations on the remuneration of non-executive directors.

The remuneration committee met twice during the year with perfect attendance. No member took part in any discussion, recommendation or decision concerning his remuneration at the meeting.

	No. of meetings attended/held
Leung Yu Ming, Steven *(Chairman)*	2/2
Cheung Chung Kiu	2/2
Ng Kwok Fu	2/2

The Group's remuneration approach seeks to attract, motivate and retain the executive talent that is essential for the implementation of its business strategy towards sustained and long-term returns for shareholders. Its remuneration structure comprises fixed and variable components, including salaries, discretionary bonuses, pension scheme contributions and share options.

The emoluments received by every executive director and senior executive are determined with reference to individual and company performance, industry specific remuneration benchmarks and prevailing market conditions, subject to annual assessment.

The remuneration committee recommends non-executive director fees annually, based on market practices, time commitment and level of responsibility. These recommendations are then put to a meeting of the board for approval.

During the year, the remuneration committee reviewed and approved the management's remuneration proposals. It also reviewed, among other matters, directors' fees and remuneration policy and structure. The committee fixed the remuneration packages of individual executive directors, focusing on salary levels in comparator companies and role, responsibility and performance of the individual executive director so as to align management incentives with shareholders' interests.

The committee is confident that the remuneration policy, which was applied in the year under review and is expected to be applied in future years and beyond, dovetails with the overall corporate goals and objectives. In the opinion of the committee, the executive remuneration levels for the year were in line with the market.

Details of the directors' remuneration for the year are set out in note 8 to the financial statements on pages 84 and 85.

BOARD COMMITTEES *(continued)*

The nomination committee

The nomination committee, which is chaired by Mr. Cheung Chung Kiu, comprises three members, as shown in the corporate information section on page 1. All members served on the committee throughout the year up to the date of this report.

This committee serves as an advisory committee to recruit, screen and recommend board candidates for the board. Its primary role is to ensure that the right mix of talent, skills and experience as well as diversity on the board is retained. To this end, the committee reviews the relevant policies and the board structure, size and composition; assesses the independence of independent non-executive directors; and advises on directors' appointment or re-appointment and the management of board succession.

The nomination committee met once during the year with perfect attendance.

	No. of meetings attended/held
Cheung Chung Kiu *(Chairman)*	1/1
Ng Kwok Fu	1/1
Leung Yu Ming, Steven	1/1

A nomination policy has been established by the Company for the selection and appointment of candidates nominated to the board. When assessing the suitability of a candidate, factors such as time commitment, expertise and industry experience as well as integrity and skill will be taken into consideration as a whole and the candidate should be able to demonstrate the competency required for a listed company director. In the case of independent non-executive directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Selection of candidates will also be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, or professional experience. These objectives are documented in a board diversity policy which has also been established by the Company to ensure that diversity, in its broadest sense, remains a central feature of the board.

During the year, the nomination committee reviewed the board composition and independence of independent non-executive directors, and considered the suitability of those retiring directors standing for re-election at the next annual general meeting as well as the need a for director succession plan. The committee also reviewed the nomination policy and the board diversity policy and discussed the objectives set for implementing the latter, and noted that those objectives had been achieved. The committee concluded that the board composition should continue unchanged.

BOARD COMMITTEES *(continued)*

The audit committee

The audit committee, which was chaired by Mr. Luk Yu King, James, comprised four members at the beginning of the year. On 29 February 2016, Mr. Lee Ka Sze, Carmelo resigned, resulting in a three-member committee. All of the three remaining members served on the committee throughout the year up to the date of this report. The composition of the committee is shown in the corporate information section on page 1.

This committee acts as the key representative body for overseeing the Company's relations with the external auditors. It supports the board in monitoring the Company's financial information and whistleblowing procedures for employees, and oversees the Group's financial reporting system, risk management and internal control systems.

Meetings of the audit committee are held at least biannually with the external auditors, Ernst & Young, and triannually with management.

The audit committee met three times during the year with perfect attendance.

	No. of meetings attended/held
Luk Yu King, James *(Chairman)*	3/3
Ng Kwok Fu	3/3
Leung Yu Ming, Steven	3/3

During the year, the audit committee approved the remuneration and terms of engagement of Ernst & Young, and considered their suitability for re-appointment. It examined Ernst & Young's independence and objectivity, having regard to any non-audit services engagements, and the effectiveness of the audit process. The committee was satisfied that Ernst & Young had demonstrated the independence and objectivity required for external auditors and that the audit process had been effective. Ernst & Young were remunerated a total of HK$1.60 million for services rendered to the Group, of which HK$1.32 million were audit fees, HK$0.23 million were fees for interim review and HK$0.05 million were fees for tax compliance services. The provision of interim review and tax compliance services by Ernst & Young did not, in the opinion of the committee, compromise their independence. The committee also reviewed the Company's financial statements and half-yearly and annual results, and discharged its other duties under the CG Code, including reviewing the risk management and internal control systems, the effectiveness of the internal audit function as well as the non-audit services policy and whistleblowing procedures.

BOARD COMMITTEES *(continued)*

The audit committee *(continued)*

As disclosed in the risk management and internal control section on pages 16 to 18, the audit committee plays a vital role in monitoring the Group's risk management and internal control systems. This was done through regular meetings with management, the internal audit function and/or Ernst & Young as appropriate during the year, in which the committee engaged discussions with management on the risk areas identified and reviewed relevant findings as well as reports arising from internal and external audits.

In the opinion of management, adequate risk management and internal control systems had been in place and maintained properly throughout the year to facilitate the effectiveness and efficiency of operations; to safeguard assets against unauthorised use and disposition; to ensure the maintenance of proper accounting records and the truth and fairness of the financial statements; to allow proactive management of the relevant risks identified; to allow fair and independent investigation of possible improprieties in financial reporting, internal control or other matters and appropriate follow-up action; and to ensure compliance with relevant legislation and regulations. Management was of the further views that save for the disposal of Prestige Tower and Century Square which was completed in February 2016, there had been no changes, since the last annual review, in the nature and extent of significant risks; that the Company was able to respond to changes to its business and the external environment and its processes for financial reporting and Listing Rule compliance were effective; and that the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions were adequate. For the year under review, no significant control failings or weaknesses were identified and there revealed no significant areas of improvement or modification which were required to be brought to the attention of the audit committee.

The audit committee concurred with the above findings, and was satisfied that management had performed its duty to have effective systems. The committee further noted that there was no conflict between internal audit and external audit and that the internal audit function had appropriate standing within the Company. Recommendations were made to the board on the re-appointment of Ernst & Young as the external auditors of the Company for the ensuing year and on the submission of the 2016 annual accounts for shareholder approval at the forthcoming annual general meeting.

COMMUNICATION WITH SHAREHOLDERS

The board has established a shareholders' communication policy, which sets out the Company's approach to maintain an on-going dialogue with its shareholders and potential investors. The policy is reviewed annually to ensure its effectiveness.

SHAREHOLDERS' RIGHTS

An annual general meeting shall be held in every year. General meetings which are not annual general meetings are known as special general meetings as referred to in the procedures described below. These procedures are subject to the bye-laws of the Company, the Bermuda Companies Act 1981 and applicable legislation and regulations.

Convening special general meeting

1. Shareholders holding at the date of deposit of the requisition not less than one-tenth (1/10) of the paid-up capital of the Company carrying the right to vote at general meetings of the Company shall at all times have the right to require a special general meeting to be called by the board for the transaction of any business specified in such requisition by written requisition.

2. A requisition referred to above must state the purposes of such meeting, and must be signed by the requisitionists and deposited at the Company's registered office in Bermuda, and may consist of several documents in like form, each signed by one or more requisitionists. To ensure that the requisition is received by the Company at the earliest opportunity, the requisitionists are urged to deposit also a copy of the signed requisition at the Company's principal place of business in Hong Kong (for the attention of the board of directors or the company secretary).

3. If the directors do not within twenty-one (21) days from the date of the deposit of the requisition proceed duly to convene a special general meeting to be held within two (2) months after the deposit of the requisition, the requisitionists, or any of them representing more than one-half (1/2) of the total voting rights of all of them, may themselves convene a meeting and be repaid by the Company for any reasonable expenses incurred by reason of the failure of the directors duly to convene a meeting as aforesaid provided that any meeting so convened by the requisitionists shall not be held after the expiration of three (3) months from the said date.

4. Other than an adjourned meeting,

   (1) a special general meeting called for the passing of a special resolution shall be called by at least twenty-one (21) clear days and not less than ten (10) clear business days written notice. All other special general meetings may be called by at least fourteen (14) clear days and not less than ten (10) clear business days written notice.

   (2) any special general meeting may be called by shorter notice than that specified in subsection (1) if it is so agreed by a majority in number of the shareholders having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the shares giving that right.

SHAREHOLDERS' RIGHTS *(continued)*

Putting forward proposals at general meetings

1. In addition to the right to requisition a special general meeting, shareholders have also the right to request circulation of resolutions which may properly be moved at an annual general meeting. Any number of shareholders representing not less than one-twentieth (1/20) of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the general meetings; or not less than one hundred (100) shareholders, shall (unless otherwise resolved by the Company) at their own expense have the right by written requisition: (a) to require notice of any resolution which may properly be moved and is intended to be moved at the next annual general meeting to be given to shareholders; and/or (b) to request for circulation to shareholders any statement of not more than one thousand (1000) words with respect to the matter referred to in any proposed resolution or the business to be dealt with at any general meeting.

2. A requisition referred to above must be signed by the requisitionists in a single document or in separate copies prepared for the purpose. A copy of the signed requisition, accompanied by a sum reasonably sufficient to meet the Company's expenses, must be deposited at the Company's registered office in Bermuda: (a) in the case of a requisition requiring notice of a resolution, not less than six (6) weeks before the annual general meeting unless an annual general meeting is called for a date six (6) weeks or less after the copy has been deposited, in which case the copy shall be deemed to have been properly deposited though not deposited within the time required; and (b) in the case of any other requisition, not less than one (1) week before the general meeting. To ensure that the requisition is received by the Company at the earliest opportunity, the requisitionists are urged to deposit also a copy of the signed requisition at the Company's principal place of business in Hong Kong (for the attention of the board of directors or the company secretary).

3. A shareholder who wishes to propose a person (other than a retiring director and any person recommended by the directors for election) for election as a director at a general meeting must give notice in writing of such intent and notice in writing by that person and accompanying personal information, being information required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, must also be given to the Company at its principal place of business in Hong Kong (for the attention of the board of directors or the company secretary) not earlier than the day after the dispatch of the notice of the general meeting appointed for such election and not later than seven (7) days prior to the date of such meeting. The first notice must be signed by the shareholder concerned, and the second notice must be signed by the proposed new director to indicate his or her willingness to be elected and consent to publication of the relevant information.

   Note: In order that shareholders have sufficient time to receive and consider the information of the proposed new director, the shareholder making the proposal is urged to submit and/or procure the submission of the required notices and information as early as practicable, preferably not later than fourteen (14) business days before the date of the relevant general meeting.

SHAREHOLDERS' RIGHTS *(continued)*

Shareholders may at any time send enquiries to the board via 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong or investors@ytrealtygroup.com.hk. Our company secretarial or investor relations personnel will, where appropriate, forward your enquiries to the board or the relevant committee. For enquiries concerning shareholdings and related matters, please call or visit Tricor Abacus Limited via the contact details on page 1.

INVESTOR RELATIONS

No significant changes to the Company's constitutional documents were made during the year.

COMPANY SECRETARY

The company secretary, Mr. Albert T. da Rosa, Jr., is a partner of Cheung Tong & Rosa Solicitors, a legal adviser to the Company as to Hong Kong laws. Mr. da Rosa was appointed the company secretary on 28 September 2000. Although Mr. da Rosa is not an employee of the Company, he reports to the chairman and advises the board on governance matters. The Company has assigned Mr. Vong Veng Kei, financial controller, as its primary corporate contact person whom Mr. da Rosa can contact.

CONCLUSION

In the opinion of the board, good governance was maintained throughout the accounting period covered by the annual report. The Company shall keep its governance practices under review to ensure that they are in step with the latest developments.

We are pleased to present our annual report on environmental, social and governance ("ESG") matters for the year ended 31 December 2016. This report has been prepared in compliance with Rule 13.91 of the Main Board Listing Rules published by The Stock Exchange of Hong Kong Limited, and gives information required to be disclosed pursuant to the provisions set forth within the Environmental, Social and Governance Reporting Guide (the "ESG Guide") in Appendix 27 to the said Rules.

This report covers the environmental and social performances of the Company and its subsidiaries, which are all office based (together, the "Group").

ESG STRATEGY AND REPORTING

The board has overall responsibility for our ESG strategy and reporting, including evaluating and determining ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. To this end, the managing director has appointed senior executives to identify relevant ESG issues and to assess their materiality to our business as well as to our stakeholders, through regular review and internal discussions. Management has provided a confirmation to the board on the effectiveness of these systems.

Our ESG approach begins with good principles and practices across all our operations. We aim to reconcile our commercial objectives of realising long-term shareholder value and business sustainability with long-term imperatives of sustainable growth, social prosperity and social well-being. The Group has adopted a comprehensive policy which outlines the policies that were designed to fulfil its obligations with respect to sustainable development and corporate social responsibility. The said policy guides our business and operational decisions to take into account our responsibility to the focus areas which reflect the Group's business nature: workplace, operating practices, community and environment. We strive to integrate our contribution to society into our business by minimising potential environmental impact; providing a safe and healthy working environment to employees; supporting community initiatives; seeking to promote awareness of corporate social responsibility in the business; providing staff training as well as monitoring and improving our ESG performance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Information relating to the material ESG issues affecting the Group during the year, as required by the ESG Guide, is given below.

A. Environmental

Our commitment to sustainable development is well reflected in our continuous efforts in promoting awareness among our stakeholders, employees and customers alike, to minimise the environmental impact of our business activities. We uphold the 3Rs principle of "Reduce, Recycle and Reuse". This began with green office practices, for which the Human Resources Practice Guide and Employee Handbook provide specific guidelines. These guidelines highlight three broad areas into which those practices may fall, namely energy conservation, waste reduction and the handling/disposal of office wastes. They include: (1) in terms of energy conservation, energy saving, water saving and fuel saving procedures; (2) in terms of waste reduction, paper saving and stationery saving procedures; and (3) in terms of the handling/ disposal of office wastes, procedures for collecting waste paper, refuse, used batteries, computers and other office equipment and accessories for reuse or recycling, as well as procedures for maintaining records of the waste disposed of and recycled for each type of the wastes. Prominent signs/labels/notices are displaced in conspicuous locations throughout the workplace, and regular reminders are issued to staff, to remind them of the steps or procedures they should take in their daily operations to maintain a green environment within our workplace.

A.1 Emissions

The Group did not register any significant air and greenhouse gas emissions, discharges into water and land, nor did it generate significant hazardous and non-hazardous waste, throughout the year. Office effluents and wastes were negligible. All workplace effluents were discharged into the municipal sewer systems for collective treatment. Workplace wastes were treated by property management company and/or waste collection company, as appropriate, during the year.

To contribute to environmental sustainability, the Group has adopted measures to mitigate air emissions and fuel consumption. In recognising the importance of waste management, more tightened waste controls have been conducted within our operations and relevant laws and regulations observed and adhered to. We seek to reduce, reuse and recycle to minimise the dumping of wastes at landfills. In furtherance of these efforts, facilities for paper recycling have been set up in the workplace. The Group was not aware of any violation of emissions laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste during the year.

A.2 Use of Resources

To better manage the use of resources, the Group has introduced energy and water saving measures for all its operations. Instructions are given to relevant personnel to purchase electrical appliances and office consumables with green specifications for their workplace. We shall continue our dedicated efforts to conserve resources towards achieving environmental protection and operating efficiency.

A.3 The Environment and Natural Resources

The impacts of the Group's business activities on the environment and natural resources during the year were negligible.

B. Social

The Group recognises that employees are a valuable asset of the organisation and it is essential to attract and motivate good talent while balancing the interests of other stakeholders. Apart from a safe and healthy workplace, we offer a comprehensive remuneration and benefits package to our employees, training opportunities, equal opportunities and fairness at work for all as well as channels for staff communication. Staff social functions are arranged to enhance employees' sense of belonging and to help create a friendly and harmonious working environment. Salaries are reviewed and adjusted on a yearly basis, and from time to time, to ensure balancing pay for performance with shareholder alignment. The Group also recognises the importance of maintaining good relationship with its shareholders, customers and business partners in order to achieve long-term goals. Accordingly, the senior management maintains good communication and promptly exchanges ideas and shares the Group's business updates with these people.

B.1 Employment

Employees are our valuable assets. We strive to attract and retain talent and to reconcile economical imperatives with human well-being, with an aim to promoting satisfaction, loyalty and commitment. Human Resources Practice Guide and Staff Handbook are in place to govern, among others, the recruitment, promotion, discipline, working hours, leaves and other duties and benefits of employees. The level of employees' remuneration is reviewed and adjusted annually on a performance basis with reference to the market standard. In addition, a wide range of staff benefits, including medical insurance, retirement schemes, training subsidies and paid leaves, are provided; and social, recreational activities are arranged for employees to strike a work-life balance while fostering cohesion and team spirit among them. The Group respects cultural and individual diversity. We believe that no one should receive less favourable treatment on the grounds of age, race, ethnicity or nationality, gender, religion, marital status, disability or family status. At our workplace, opportunities for employment, training and career development are equally opened to all staff members. The Group was not aware of any violation of employment laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare during the year.

B.2 Health and Safety

We are committed to providing and maintaining a safe, healthy, and hygienic work environment. To this end, health and safety measures are in place and given prime consideration; employees are required to stringently abide by all safety rules and regulations and adhere to those measures at all times to avoid accidents and protect themselves and co-workers from safety hazards. Employees in all levels are accountable for the delivery of the safety initiatives described in the Employee Handbook. Potential hazards are identified and addressed by relevant personnel. So far as is known to the directors, all offices and workplaces of the Group were operated and maintained in safe and reliable conditions throughout the year. We will review relevant procedures from time to time to safeguard employees' occupational health and safety. The Group was not aware of any violation of health and safety laws and regulations relating to providing a safe working environment and protecting the employees from occupational hazards during the year.

B. Social *(continued)*

B.3 Development and Training

We acknowledge the importance of training not just to staff development, but also to our success as a whole. The Group offers customised and general training to its staff members, through organised or sponsored training programmes, seminars, workshops and conferences, regular sharing sessions, peer learning and on-the-job coaching, as appropriate, to help equip employees with the knowledge and skills that help enable them to perform their job effectively and efficiently and to assist them in developing the required character, knowledge and skills that help advance their career. We believe this combined effort is essential to achieving personal and corporate goals of our employees and the Company respectively.

B.4 Labour Standards

We strive to treat everyone equally at work and to ensure that no employees are disadvantaged and expectations of equality are always met in the workplace. All employment with the Group is voluntary and any child or forced labour in any of our operations and services is strictly prohibited. We also avoid engaging vendors of administrative supplies and services and contractors that are known to employ child or forced labour in their operations. Employment decisions are subject to a fair and equal selection process, based on the candidate's suitability in terms of qualifications, personality and career goals. The Group was not aware of any violation of labour standards laws and regulations relating to preventing child and forced labour during the year.

B.5 Supply Chain Management

We recognise the importance of supply chain management to our business, and focus our efforts in areas along the supply chain where we believe they can add value to our operations. The Group is committed to ensuring that fair operating practices are in place in all aspects of its sourcing, procurement and supply process.

B.6 Product Responsibility

We are committed to adapting our operating practices to fully embrace the concept of sustainable development. To avoid and reduce the environmental impacts caused by our services, the Group ensures that appropriate measures and clear procedures are in place and are being followed by relevant personnel with respect to health and safety, advertising, labelling and privacy matters. Statutory requirements are strictly adhered to and employees are required to retain in confidence any and all information obtained in connection with their employment, including but not limited to trade secrets, client personal data and information, supplier information and other proprietary information. The Group was not aware of any violation of product responsibility laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress during the year.

B. Social *(continued)*

B.7 Anti-corruption

We aim to set and maintain a high standard of business integrity throughout our operations. The Group prohibits all forms of bribery, extortion, fraudulent, money laundering and corruption activities in connection with any of its business activities. All directors and employees are required to strictly comply with the code of conduct prohibiting bribery, extortion, fraud, money laundering and corruption. The Company has further adopted whistleblowing procedures for employees to raise concerns, in confidence, about possible improprieties in any matters related to the Group. These arrangements are reviewed on a regular basis by the audit committee and reported back to the board. Any reported case of fraudulence will receive immediate, fair and independent, investigation and appropriate follow-up action. The Group was not aware of any violation of anti-corruption laws and regulations relating to bribery, extortion, fraud and money laundering during the year.

B.8 Community Investment

We strive to promote social development and progress by contributing to education, charity, sports, and arts and culture. The Group is dedicated towards raising awareness of social responsibility among its staff. We encourage employees to better serve the community, through volunteer work, donations and participation in charity sport/fund-raising events. We will strive to expand our efforts in charity work to cater to the needs of our community as well as to create a more favourable environment for our community and our business.

Going forward, the Group will review its ESG practices and consider implementing further eco-friendly measures and practices, as appropriate, to improve its ESG performance.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND GROUP PERFORMANCE

During the year, the Company continued to be an investment holding company. The principal activities of its subsidiaries continued to be property investment, property trading, the provision of property management and related services and investment holding. Details of those activities are set out in note 1 to the financial statements. Over 50% of the Group's revenue for the year was derived from its property rental business in Hong Kong. An analysis of the Group's performance for the year by operating segments is set out in note 4 to the financial statements.

BUSINESS REVIEW

This business review is made pursuant to paragraph 28(2)(d) of Appendix 16 to the Main Board Listing Rules (the "Listing Rules") published by The Stock Exchange of Hong Kong Limited (the "Exchange"). In the opinion of the directors, the Chairman's Statement and Management Discussion and Analysis section provides a comprehensive review of the performance of the Group for the year ended 31 December 2016 as well as its future prospects.

Principal risks and uncertainties

The directors recognise that the Group's performance and prospects are dependent on economic conditions and market performance of the property market in which the Group has its business operations. The Group monitors business risks associated with the external factors affecting the Group and take prompt actions to minimise potential business impact. In addition, the directors are aware that the Group is exposed to various financial risks in its business operations. An analysis of the Group's financial risk management is provided in note 34 to the consolidated financial statements.

Environmental policies and performance

The Company has in place a corporate social responsibility policy (the "CSR Policy") applicable to itself and to its subsidiaries. The CSR Policy outlines the policies that were designed to fulfil our obligations with respect to sustainable development and corporate social responsibility. Our commitment to sustainable development is well reflected in our continuous efforts in promoting awareness among our stakeholders, employees and customers alike, to minimise the environmental impact of our business activities. We uphold the 3Rs principle of "Reduce, Recycle and Reuse". This began with green office practices, for which the Human Resources Practice Guide and Employee Handbook provide specific guidelines. These guidelines highlight three broad areas into which those practices may fall, namely energy conservation, waste reduction and the handling/disposal of office wastes. They include: (1) in terms of energy conservation, energy saving, water saving and fuel saving procedures; (2) in terms of waste reduction, paper saving and stationery saving procedures; and (3) in terms of the handling/disposal of office wastes, procedures for collecting waste paper, refuse, used batteries, computers and other office equipment and accessories for reuse or recycling, as well as procedures for maintaining records of the waste disposed of and recycled for each type of the wastes. Prominent signs/labels/notices are displaced in conspicuous locations throughout the workplace, and regular reminders are issued to staff, to remind them of the steps or procedures they should take in their daily operations to maintain a green environment within our workplace.

BUSINESS REVIEW *(continued)*

Environmental policies and performance *(continued)*

So far as is known to the directors, all offices and/or workplaces of the Group were operated and maintained in safe and reliable conditions throughout the year.

We will review our environmental practices and consider implementing further eco-friendly measures and practices, as appropriate, to improve our performance.

Compliance with relevant laws and regulations

During the year, there were no areas of material non-compliance with applicable laws and regulations that have a significant impact on the Company known to the directors.

Key relationships with employees, customers and suppliers and others

The Group recognises that employees are a valuable asset of the organisation and it is essential to attract and motivate good talent while balancing the interests of other stakeholders. Apart from a safe and healthy workplace, we offer a comprehensive remuneration and benefits package to our employees, training opportunities, equal opportunities and fairness at work for all as well as channels for staff communication. Staff social functions are arranged to enhance employees' sense of belonging and to help create a friendly and harmonious working environment. Salaries are reviewed and adjusted on a yearly basis, and from time to time, to ensure balancing pay for performance with shareholder alignment. The Group also recognises the importance of maintaining good relationship with its shareholders, customers and business partners in order to achieve long-term goals. Accordingly, the senior management maintains good communication and promptly exchanges ideas and shares the Group's business updates with these people.

During the year, there were no material and significant disputes between the Company or any of its subsidiaries and their respective employees, customers and suppliers, shareholders or business partners known to the directors.

RESULTS AND APPROPRIATIONS

The results of the Group for the year and the financial position of the Group at that date are set out in the consolidated statement of profit or loss and consolidated statement of financial position on page 48 and 50 respectively.

The directors do not recommend the payment of a final dividend in respect of the year (2015: Nil).

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements

PRINCIPAL PROPERTIES

Particulars of the principal properties held by the Group are set out on page 116.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 1 to the financial statements.

ASSOCIATES

Particulars of the Group's investment in an associate are set out in note 15 to the financial statements.

JOINT VENTURE

Particulars of the Group's investment in a joint venture are set out in note 16 to the financial statements.

SHARE CAPITAL

Movements in the share capital of the Company during the year are set out in note 23 to the financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on pages 51 and 52 and note 35 to the financial statements respectively.

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981, amounted to HK$1,280.9 million (2015: HK$1,800.0 million), none of which has been proposed as final dividend for the year (2015: Nil). In addition, the Company's share premium account in the amount of HK$95.7 million (2015: HK$95.7 million) may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, there was no charitable contribution made by the Group (2015: Nil).

BANK LOANS

At 31 December 2016, there is no outstanding bank loan. At 31 December 2015, the Group's bank loans, which comprise term loans and revolving credit facilities, are secured by certain properties held by the Group. An analysis of these borrowings is set out in note 21 to the financial statements. No interest was capitalised during the year.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 117. This summary does not form part of the audited financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and revenue for the year attributable to the Group's major suppliers and customers, respectively, are as follows:

	2016	2015
	%	*%*
Purchases		
– the largest supplier	**17**	24
– the five largest suppliers combined	**59**	55
Revenue		
– the largest customer	**14**	17
– the five largest customers combined	**43**	36

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in those major suppliers and customers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors serving for the year were:

Executive Director

Cheung Chung Kiu *(Chairman)*
Wong Chi Keung *(Managing Director)*
Yuen Wing Shing
Tung Wai Lan, Iris

Non-executive Director

Lee Ka Sze, Carmelo
Wong Yat Fai

Independent Non-executive Director

Ng Kwok Fu
Luk Yu King, James
Leung Yu Ming, Steven

The following director(s) resigned or took up an additional role and function during the year:

Wong Chi Keung *(resigned as Managing Director and Executive Director on 29 February 2016)*
Cheung Chung Kiu *(appointed as Managing Director on 29 February 2016)*
Lee Ka Sze, Carmelo *(resigned as Non-executive Director on 29 February 2016)*
Wong Yat Fai *(resigned as Non-executive Director on 29 February 2016)*

Mr. Luk Yu King, James and Mr. Leung Yu Ming, Steven cease to hold office at the close of the forthcoming annual general meeting according to their terms of office. They also retire from office by rotation in accordance with bye-law 87 of the bye-laws of the Company and being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE

The Company has received from each individual independent non-executive director an annual confirmation of his independence and still considers them to be independent.

DIRECTORS' INFORMATION / SIGNIFICANT COMMITMENTS

Mr. Cheung Chung Kiu was appointed managing director of the Company to fill the vacancy arising from the resignation of Mr. Wong Chi Keung on 29 February 2016. His updated information is set out on page 7.

Apart from the foregoing, the Company has not been advised by the directors as at the date hereof of any change in the information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since its last update to shareholders nor in any of their significant commitments for the purpose of A.6.6 of the Corporate Governance Code set out within Appendix 14 to the Listing Rules.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in notes 8 and 9 to the financial statements respectively.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

The register kept by the Company under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") shows the following interests of directors in the shares of the Company as at 31 December 2016:

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS *(continued)*

Name	Capacity	No. of shares[2]	Total no. of shares	% of shareholding
Cheung Chung Kiu	Interest of controlled corporation	273,000,000[1]	273,000,000	34.14%
Ng Kwok Fu	Beneficial owner	50,000		
	Interest of spouse	40,000	90,000	0.01%

Notes:

1 Mr. Cheung Chung Kiu ("Mr. C.K. Cheung") was deemed to be interested in 273,000,000 shares in the Company by virtue of his indirect interest in Funrise Limited ("Funrise") which owned those shares. Funrise was a wholly owned subsidiary of Yugang International (B.V.I.) Limited ("Yugang BVI") which in turn was a wholly owned subsidiary of Yugang International Limited ("Yugang International"). Mr. C.K. Cheung, Timmex Investment Limited (a company wholly owned by Mr. C.K. Cheung) and Chongqing Industrial Limited ("Chongqing Industrial") owned 0.57%, 9.16% and 34.33% of the issued share capital of Yugang International respectively. Chongqing Industrial was owned as to 35% by Mr. C.K. Cheung, as to 30% by Prize Winner Limited (a company owned by Mr. C.K. Cheung and his associates), as to 30% by Peking Palace Limited ("Peking Palace") and as to 5% by Miraculous Services Limited ("Miraculous Services"). Peking Palace and Miraculous Services were companies controlled by Palin Discretionary Trust, the trustee of which was Palin Holdings Limited ("Palin Holdings") and the objects of which included Mr. C.K. Cheung and his family.

2 All of the interests disclosed above represent long positions.

Save as disclosed herein, as at 31 December 2016, no directors or chief executive had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Exchange pursuant to the Code for Securities Transactions by Directors of the Company.

SHARE OPTION SCHEME

The share option scheme adopted by the Company on 21 May 2015 (the "Scheme") is the only share option scheme of the Company. A summary of the Scheme is given below. Other principal terms of the Scheme are given in the circular to shareholders dated 17 April 2015 (the "Scheme Circular").

SHARE OPTION SCHEME *(continued)*

(1)	Purpose	:	To provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits, to the participants and to serve such other purposes as the board may approve from time to time
(2)	Participants	:	Any director (or any person proposed to be appointed as such, whether executive or non-executive), officer and employee (whether full-time or part-time) of each member of the Eligible Group (as defined in the Scheme Circular); any business consultant, professional or other advisers (in the areas of legal, technical, financial or corporate managerial) (including any executive, officer and employee of such business consultant, professional and other advisers) to each member of the Eligible Group (or persons proposed to be appointed as such) who has rendered service or will render service to the Group, as absolutely determined by the board
(3)	Total number of shares available for issue (% of number of shares in issue as at 23 March 2017)	:	79,955,741 shares (10%)
(4)	Maximum entitlement of each participant	:	1% of the total number of shares in issue in any 12-month period
(5)	Period within which the shares must be taken up under an option	:	To be determined by the board at its absolute discretion as being the period during which an option may be exercised, such period to expire not later than 10 years from the date of grant of the option
(6)	Minimum period for which an option must be held before exercise	:	To be determined by the board from time to time
(7)	Amount payable on application or acceptance of the option	:	HK$1.00

SHARE OPTION SCHEME *(continued)*

(8)	Basis of determining the exercise price	:	The exercise price shall be a price solely determined by the board but shall be not less than the higher of: (a) the closing price of the shares as stated in the Exchange's daily quotations sheet on the date of grant of the option which must be a business day; (b) the average closing price of the shares as stated in the Exchange's daily quotations sheets for the five consecutive business days immediately preceding the date of grant of the option; and (c) the nominal value of a share on the date of grant of the option
(9)	Remaining life	:	Until 20 May 2025

No option lapsed and no option was granted, exercised or cancelled under the Scheme during the year. Nor were there any outstanding options with regard to the Scheme and any other schemes of the Company at the beginning and/or at the end of the year.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Apart from the Scheme, at no time during the year was the Company or any of its subsidiaries a party to any arrangements whose objects are, or one of whose objects is, to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

OTHER PERSONS' INTERESTS AND SHORT POSITIONS

As at 31 December 2016, so far as is known to the directors of the Company, the following persons, other than the directors, had, or were deemed to have, interests in the shares of the Company as recorded in the register kept by the Company under section 336 of the SFO:

Name	Capacity	No. of shares[3]	Total no. of shares	% of shareholding
Palin Holdings	Interest of controlled corporation	273,000,000[1]	273,000,000	34.14%
Chongqing Industrial	Interest of controlled corporation	273,000,000[1]	273,000,000	34.14%
Yugang International	Interest of controlled corporation	273,000,000[1]	273,000,000	34.14%
Yugang BVI	Interest of controlled corporation	273,000,000[1]	273,000,000	34.14%
Funrise	Beneficial owner	273,000,000[1]	273,000,000	34.14%
Lo Ki Yan, Karen	Beneficial owner	39,128,000		
	Interest of controlled corporation	32,166,000[2]	71,294,000	8.92%

Notes:

1. Each parcel of 273,000,000 shares represents Funrise's interest in the Company (which is duplicated in Mr. C.K. Cheung's interest in the Company's shares). Palin Holdings, Chongqing Industrial, Yugang International and Yugang BVI were deemed to be interested in those shares by virtue of their direct or indirect interest in Funrise.

2. Ms. Lo Ki Yan, Karen was deemed to be interested in the 32,166,000 shares in the Company directly held by Murtsa Capital Management Limited. Murtsa Capital Management Limited was a wholly owned subsidiary of HEC Development Limited which in turn was a wholly owned subsidiary of HEC Capital Limited. C.C Rider Investments Limited owned 84.23% of the issued share capital of HEC Capital Limited. C.C Rider Investments Limited was a wholly owned subsidiary of Easy Rider Investments Limited which in turn was owned as to 70.97% by Ristora Investments Ltd. Ristora Investments Ltd. was wholly owned by Ms. Lo Ki Yan, Karen.

3. All of the interests disclosed above represent long positions.

Save as disclosed herein, there was no person known to the directors of the Company, who, as at 31 December 2016, had, or was deemed to have, any interest or short position in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO, other than as disclosed on page 37.

CONNECTED TRANSACTIONS

On 17 December 2015, a sale and purchase agreement (the "Disposal Agreement") was entered into amongst Y. T. Investment Holdings Limited (being a direct wholly-owned subsidiary of the Company) ("YT Investment") as vendor, Access Power Group Limited ("Access Power") as purchaser and Mr. C.K. Cheung as purchaser's guarantor, pursuant to which YT Investment conditionally agreed to sell the entire issued share capital of each of Y. T. Properties International Limited ("HK PropCo") and Y. T. Property Services Limited ("HK ServiceCo") (collectively the "Sale Shares") and assign the aggregate amount of the shareholders' loans owing respectively from HK PropCo and HK ServiceCo to YT Investment (including any rights and benefits of and interests therein) as at completion (collectively the "Sale Loans") to Access Power. The total consideration for the Sale Shares and the Sale Loans under the Disposal Agreement was HK$4,020.9 million, subject to adjustment. The obligations of and performance of the terms of the Disposal Agreement and the transactions contemplated thereunder by Access Power were guaranteed by Mr. C.K. Cheung.

As at 17 December 2015, HK PropCo held the entire interests in the property-holding companies which owned respectively Prestige Tower and the shops and offices at Century Square in Hong Kong, while HK ServiceCo and its subsidiary were the property management services providers for the said properties. As Mr. C.K. Cheung was a connected person of the Company and as Access Power was wholly owned by Mr. C.K. Cheung, Access Power was an associate of Mr. C.K. Cheung and also a connected person of the Company. Accordingly, the conditional disposal of the Sale Shares and the assignment of the Sale Loans pursuant to the Disposal Agreement (the "Disposal") constituted a very substantial disposal and a connected transaction of the Company.

Completion of the Disposal took place on 29 February 2016. Further details of the Disposal are given in the announcement of the Company dated 17 December 2015 and the circular of the Company dated 29 January 2016.

Save as disclosed herein, there were no connected transactions conducted in the year (including continuing connected transactions under agreements signed in previous years).

RETIREMENT SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme which covers 100% of the Group's employees. Particulars of the retirement scheme are set out in note 2.4(t) to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company maintained throughout the year the prescribed amount of public float under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares in the Company during the year.

PRE-EMPTIVE RIGHTS

There are no pre-emptive rights provisions in the Bermuda Companies Act 1981 or in the bye-laws of the Company.

PERMITTED INDEMNITY PROVISION

Permitted indemnity provisions for the benefit of the directors are currently in force and were in force throughout the year.

EXTERNAL AUDITORS

The financial statements for the year have been audited by Ernst & Young, Certified Public Accountants, who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as the external auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Cheung Chung Kiu
Chairman and Managing Director

Hong Kong, 23 March 2017

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Y. T. Realty Group Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Y. T. Realty Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 48 to 115, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, 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 disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Fair value of dividend payable for the distribution in specie of shares in The Cross-Harbour (Holdings) Limited ("Cross-Harbour")	
On 29 September 2016, the board of directors of the Company proposed a special dividend in the form of a distribution in specie of the shares in Cross-Harbour held by the Group. Such distribution was approved at the special general meeting of the Company held on 14 November 2016 and was completed on 30 November 2016. According to the relevant accounting standards, management shall measure the Company's liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. In determining the fair value of the dividend payable, management has determined the unit of account to be the entire holding of the shares in Cross-Harbour held by the Group and applied a premium, the size of which the Company has engaged an external valuer to consider. Management's assessment on the fair value of the dividend payable for the distribution in specie of the shares in Cross-Harbour held by the Group was significant to our audit because this process requires significant judgements and estimates. Related disclosures are included in notes 3 "Significant Accounting Judgements and Estimates", 11 "Dividends" and 15 "Investment in an associate" to the financial statements.	We have considered the objectivity, independence and expertise of the external valuer. We also involved our internal valuation specialists to assist us with our audit of the methodology of valuation, bases and key valuation parameters adopted by the external valuer. We assessed the key parameters for the valuation of the premium by benchmarking to similar share transactions in companies listed on The Stock Exchange of Hong Kong Limited. We also assessed the adequacy of disclosures on the valuation of the dividend payable.
Valuation of investment properties	
As at 31 December 2016, the Group's investment properties amounted to HK$1,093 million which were measured at fair value. The fair value of the investment properties was determined based on valuation by professional external valuers. Management's assessment on the fair value of investment properties was significant to our audit because this process requires significant judgements and estimates. Related disclosures are included in notes 3 "Significant Accounting Judgements and Estimates" and 14 "Investment Properties" to the financial statements.	We have considered the objectivity, independence and expertise of the external valuers. We involved our internal valuation specialists to assist us with our audit of the valuation models in analysing the valuations and assessing the underlying assumptions. We further assessed property-related data used as inputs for the valuations by benchmarking to market data of similar properties. We also assessed the adequacy of the disclosures on the valuation of the investment properties.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company 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. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 skepticism throughout the audit. We also:

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

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

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

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

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

- 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.

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chow Chi Chung.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

23 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
REVENUE	5	66,653	218,691
Direct outgoings		(832)	(5,302)
		65,821	213,389
Other income and other net losses	5	83,214	1,608
Administrative expenses		(14,396)	(49,453)
Finance costs	6	(455)	(2,795)
Changes in fair value of investment properties		55,259	137,135
Share of results of an associate		176,198	258,200
Share of results of a joint venture		756	4,238
PROFIT BEFORE TAX	7	366,397	562,322
Income tax expense	10	(10,285)	(27,970)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		356,112	534,352
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	12	HK44.5 cents	HK66.8 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	2016 *HK$'000*	2015 *HK$'000*
PROFIT FOR THE YEAR		356,112	534,352
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of other investments	*17*	(207)	150
Share of other comprehensive (loss)/income of an associate		(15,575)	75,505
Share of other comprehensive loss of a joint venture		(14,117)	(4,573)
Release of exchange fluctuation reserve upon deemed disposal of a joint venture		18,690	—
Exchange differences on translation of foreign operations		(108,920)	—
Release of investment revaluation reserve upon deemed disposal of an associate		(71,891)	—
Release of other reserves upon deemed disposal of an associate		(143)	—
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(192,163)	71,082
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		163,949	605,434

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	95	1,342
Investment properties	14	1,093,054	4,099,900
Investment in an associate	15	—	2,236,514
Investment in a joint venture	16	—	119,665
Other investments	17	1,570	1,777
Total non-current assets		1,094,719	6,459,198
CURRENT ASSETS			
Trade receivables	18	1,427	605
Other receivables, deposits and prepayments		879	6,998
Cash and cash equivalents	19	390,399	417,138
Total current assets		392,705	424,741
CURRENT LIABILITIES			
Trade payables	20	79	735
Other payables and accrued expenses		22,042	100,368
Bank loans, secured	21	—	81,600
Tax payable		4,905	827
Total current liabilities		27,026	183,530
NET CURRENT ASSETS		365,679	241,211
TOTAL ASSETS LESS CURRENT LIABILITIES		1,460,398	6,700,409
NON-CURRENT LIABILITIES			
Deferred tax liabilities	22	3,768	84,390
Total non-current liabilities		3,768	84,390
Net assets		1,456,630	6,616,019
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital	23	79,956	79,956
Reserves	24	1,376,674	6,536,063
Total equity		1,456,630	6,616,019

Cheung Chung Kiu
Director

Yuen Wing Shing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to equity holders of the Company										
	Note	Issued share capital *HK$'000*	Share premium account *HK$'000*	Capital redemption reserve *HK$'000*	Capital reserve *HK$'000*	Contributed surplus *HK$'000*	Investment revaluation reserve of an associate *HK$'000*	Exchange fluctuation reserve of a joint venture *HK$'000*	Exchange fluctuation reserves *HK$'000*	Other reserves *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2016		79,956	95,738	1,350	1,800	1,321,935	87,381	(4,573)	–	4,083	5,028,349	6,616,019
Profit for the year		–	–	–	–	–	–	–	–	–	356,112	356,112
Changes in fair value of other investments		–	–	–	–	–	–	–	–	(207)	–	(207)
Exchange differences related to foreign operations		–	–	–	–	–	–	–	(108,920)	–	–	(108,920)
Share of other comprehensive loss of an associate		–	–	–	–	–	(15,490)	–	–	(85)	–	(15,575)
Share of other comprehensive loss of a joint venture		–	–	–	–	–	–	(14,117)	–	–	–	(14,117)
Deemed disposal of an associate		–	–	–	–	–	(71,891)	–	–	(2,961)	2,818	(72,034)
Deemed disposal of a joint venture		–	–	–	–	–	–	18,690	–	–	–	18,690
Other comprehensive income/(loss) for the year		–	–	–	–	–	(87,381)	4,573	(108,920)	(3,253)	2,818	(192,163)
Total comprehensive income/(loss) for the year		–	–	–	–	–	(87,381)	4,573	(108,920)	(3,253)	358,930	163,949
Special cash dividend declared and paid	*11*	–	–	–	–	–	–	–	–	–	(3,038,318)	(3,038,318)
Special dividend by way of distribution in specie of shares in an associate	*11*	–	–	–	–	(1,317,168)	–	–	–	–	(967,852)	(2,285,020)
At 31 December 2016		79,956	95,738*	1,350*	1,800*	4,767*	–	–	(108,920)*	830*	1,381,109*	1,456,630

* These reserve accounts comprise the consolidated reserves of HK$1,376,674,000 (2015: HK$6,536,063,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to equity holders of the Company									
	Note	Issued share capital *HK$'000*	Share premium account *HK$'000*	Capital redemption reserve *HK$'000*	Capital reserve *HK$'000*	Contributed surplus *HK$'000*	Investment revaluation reserve of an associate *HK$'000*	Exchange fluctuation reserve of a joint venture *HK$'000*	Other reserves *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2015		79,956	95,738	1,350	1,800	1,321,935	11,876	–	3,933	4,521,982	6,038,570
Profit for the year		–	–	–	–	–	–	–	–	534,352	534,352
Changes in fair value of other investments		–	–	–	–	–	–	–	150	–	150
Share of other comprehensive income of an associate		–	–	–	–	–	75,505	–	–	–	75,505
Share of other comprehensive loss of a joint venture		–	–	–	–	–	–	(4,573)	–	–	(4,573)
Other comprehensive income/(loss) for the year		–	–	–	–	–	75,505	(4,573)	150	–	71,082
Total comprehensive income/(loss) for the year		–	–	–	–	–	75,505	(4,573)	150	534,352	605,434
2014 final dividend declared and paid	*11*	–	–	–	–	–	–	–	–	(27,985)	(27,985)
At 31 December 2015		79,956	95,738	1,350	1,800	1,321,935	87,381	(4,573)	4,083	5,028,349	6,616,019

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operations	27	21,757	179,134
Interest paid		(226)	(1,262)
Hong Kong profits tax paid		—	(22,576)
Hong Kong profits tax refunded		772	24
Net cash flows from operating activities		22,303	155,320
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,782	2,549
Dividends received from an associate		45,024	51,234
Renovation of investment properties		(6,766)	(3,565)
Purchases of items of property, plant and equipment		(36)	(1,307)
Proceeds from disposal of an item of property, plant and equipment		1,170	175
Acquisition of subsidiaries	25(a)	(567,317)	—
Acquisition of property through a unit trust	25(b)	(419,576)	—
Disposal of subsidiaries	26	4,018,040	—
Loan to a joint venture		—	(120,000)
Net cash flows from/(used in) investing activities		3,072,321	(70,914)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		(81,600)	(20,000)
Dividends paid		(3,038,318)	(27,985)
Net cash flows used in financing activities		(3,119,918)	(47,985)
Net (decrease)/increase in cash and cash equivalents		(25,294)	36,421
Cash and cash equivalents at 1 January		417,137	380,717
Effect on foreign exchange rate changes, net		(1,444)	—
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		390,399	417,138
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	157,899	107,695
Non-pledged time deposits with original maturity of less than three months when acquired	19	232,500	309,443
		390,399	417,138

1 CORPORATE AND GROUP INFORMATION

Y. T. Realty Group Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at Rooms 3301-07, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

During the year, the Group was involved in the following principal activities:

(a) Property investment and trading;

(b) Provision of property management and related services; and

(c) Investment holding.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name of company	Place of incorporation	Issued and fully paid ordinary share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities and place of operations
Best View Investments Hong Kong Company Limited	British Virgin Islands	US$1	—	100%	Property holding in Hong Kong
Cypress Dynasty Limited	British Virgin Islands	US$1	—	100%	Property investment in the United Kingdom
Honway Holdings Limited	British Virgin Islands	US$1	100%	—	Investment holding in Hong Kong
Mainland Sun Ltd.	British Virgin Islands	US$1	—	100%	Property investment in Mainland China
Radiance Ventures Limited	British Virgin Islands	US$1	100%	—	Investment holding in Hong Kong

1 CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Name of company	Place of incorporation	Issued and fully paid ordinary share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities and place of operations
Solent Ventures Limited# ("Solent Ventures")	British Virgin Islands	US$1	—	100%	Investment holding in the United Kingdom
Super Gain Ventures Limited## ("Super Gain")	British Virgin Islands	US$1	—	100%	Investment holding in a trust
Unique Time Investments Limited## ("Unique Time")	British Virgin Islands	US$1	—	100%	Investment holding in a trust
Y. T. Finance Limited	Hong Kong	HK$3,000,000	—	100%	Finance vehicle in Hong Kong
Y. T. Group Management Limited	Hong Kong	HK$2	—	100%	Provision of business management services in Hong Kong

Additional 50% of the equity interest of Solent Ventures was acquired by the Group during the year. Upon the completion of the acquisition, Solent Ventures became a wholly-owned subsidiary of the Group. Further details of this acquisition are included in note 25(a) to the financial statements.

100% interest of Grove Property Unit Trust 4 ("GPUT 4"), a unit trust established under the laws of Jersey with 7,393,042 units, was acquired by the Group directly and indirectly through Super Gain and Unique Time, respectively, during the year. Further details of this acquisition are included in note 25(b) to the financial statements.

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. With the exception of Radiance Ventures Limited and Honway Holdings Limited at 31 December 2016, all the above companies are indirect subsidiaries of the Company.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and other investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but is available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implement issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

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, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Goodwill

Goodwill arising from business combination

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

Goodwill arising on acquisition of associates

Goodwill arising on the acquisition of associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition. Goodwill arising on acquisition of associates is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Goodwill *(continued)*

Subsequent measurement

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(c) Fair value measurement

The Group measures its investment properties and other investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Fair value measurement *(continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(d) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties held for sale, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) 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 parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Office equipment, furniture and fixtures	15%
Computer software	20%
Motor vehicles	20%
Computer equipment	33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

(h) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. The cost includes the cost of land, all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

(i) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

(j) Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction cost that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Investments and other financial assets *(continued)*

Initial recognition and measurement (continued)

The Group's financial assets include cash and cash equivalents, other investments, trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are recognised in the statement of profit or loss.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in other reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from other reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively, and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Investments and other financial assets *(continued)*

Available-for-sale financial investments (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

(k) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effect interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Impairment of financial assets *(continued)*

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss - is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

(m) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and bank loans.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Financial liabilities *(continued)*

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loan and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

(n) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

(o) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(p) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

(r) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Income tax *(continued)*

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(s) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) sale of properties and property interest, on the execution of legally binding contracts of sale;

(ii) rental income from properties, in the period in which the properties are let and on the straight-line basis over the lease terms;

(iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;

(iv) dividend income, when the shareholders' right to receive payment has been established; and

(v) property management and related services revenue, when the services are rendered.

(t) Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Employee benefits *(continued)*

Share-based payments (continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Pension scheme

The Group operates to a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Dividends

Final dividend is recognised as a liability when it is approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(v) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Foreign currencies *(continued)*

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Investment properties

The fair values of the Group's investment properties are determined by independent valuers on an open market, existing use basis. In making the judgement of determination of the fair values, consideration has been given to assumptions that are mainly based on market conditions existing at the end of the reporting period and appropriate capitalisation rates. Relevant estimates are regularly compared to actual market data. More details are given in note 14 to the consolidated financial statements.

Fair value of dividend payable for the distribution in specie of shares in The Cross-Harbour (Holdings) Limited ("Cross-Harbour")

During the year ended 31 December 2016, the Company declared a special dividend in the form of a distribution in specie of the shares in Cross-Harbour held by the Group (the "Cross-Harbour Shares"). According to the relevant accounting standards, management shall measure the Company's liability to distribute non-cash assets as a dividend to its shareholders at the fair value of the assets to be distributed, i.e. the Cross-Harbour Shares. In determining the fair value of the Cross-Harbour Shares, the Group has determined the unit of account to be the entire holding of the shares in Cross-Harbour held by the Group and applied a premium having considered that (i) the application of a premium reflects the characteristics of the liability being measured; (ii) market participants, acting in their economic best interest, would consider this premium when pricing the liability; and (iii) the inclusion of the premium is not inconsistent with the unit of account in the accounting standard that permits the fair value measurement. More details are given in notes 11 and 15 to the consolidated financial statements.

4 OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its business activities and has four reportable operating segments as follows:

(a) The property investment segment invests in properties for rental income and potential capital appreciation;

(b) The property trading segment comprises the trading of properties;

(c) The property management and related services segment comprises the provision of property management and related technical consultancy services; and

(d) The operation of driver training centres and tunnel operation and management segment refers to the Group's share of results of its associate which is engaged in the operation of and investment in driver training centres and tunnel operation and management.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss. The adjusted profit/loss is measured consistently with the Group's profit/loss except that finance costs and head office income tax expense/credit are excluded from this measurement.

Segment assets exclude other investments, cash and cash equivalents as these assets are managed on a group basis.

Segment liabilities exclude bank loans, head office tax payable and head office deferred tax liabilities as these liabilities are managed on a group basis.

4 OPERATING SEGMENT INFORMATION *(continued)*

2016

	Property investment *HK$'000*	Property trading *HK$'000*	Property management and related services *HK$'000*	Operation of driver training centres and tunnel operation and management *HK$'000*	Consolidated *HK$'000*
Segment revenue	64,889	—	1,764	—	66,653
Segment results	188,323	—	1,575	—	189,898
Finance costs					(455)
Share of results of an associate	—	—	—	176,198	176,198
Share of results of a joint venture	—	756	—	—	756
Profit before tax					366,397
Income tax expense	(10,161)	—	(163)	—	(10,324)
Unallocated income tax credit					39
Profit for the year					356,112
Assets and liabilities					
Segment assets	1,095,455	—	—	—	1,095,455
Unallocated assets					391,969
Total assets					1,487,424
Segment liabilities	23,246	—	—	—	23,246
Unallocated liabilities					7,548
Total liabilities					30,794
Other segment information:					
Capital expenditure	36	—	—	—	36
Depreciation	91	—	1	—	92
Changes in fair value of investment properties	55,259	—	—	—	55,259

4 OPERATING SEGMENT INFORMATION *(continued)*

2015

	Property investment *HK$'000*	Property trading *HK$'000*	Property management and related services *HK$'000*	Operation of driver training centres and tunnel operation and management *HK$'000*	Consolidated *HK$'000*
Segment revenue	209,999	—	8,692	—	218,691
Segment results	295,069	—	7,610	—	302,679
Finance costs					(2,795)
Share of results of an associate	—	—	—	258,200	258,200
Share of results of a joint venture	—	4,238	—	—	4,238
Profit before tax					562,322
Income tax expense	(27,212)	—	(783)	—	(27,995)
Unallocated income tax credit					25
Profit for the year					534,352
Assets and liabilities					
Segment assets	4,108,469	—	376	—	4,108,845
Investment in an associate	—	—	—	2,236,514	2,236,514
Investment in a joint venture	—	119,665	—	—	119,665
Unallocated assets					418,915
Total assets					6,883,939
Segment liabilities	177,836	—	9,186	33	187,055
Unallocated liabilities					80,865
Total liabilities					267,920
Other segment information:					
Capital expenditure	4,858	—	14	—	4,872
Depreciation	366	—	10	—	376
Changes in fair value of investment properties	137,135	—	—	—	137,135

4 OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2016 HK$'000	2015 HK$'000
Hong Kong	**38,005**	218,691
United Kingdom	**28,648**	—
	66,653	218,691

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2016 HK$'000	2015 HK$'000
Hong Kong	**13,095**	6,320,856
Mainland China	**21,400**	16,900
United Kingdom	**1,058,654**	119,665
	1,093,149	6,457,421

The non-current assets information above is based on the location of assets and excludes financial instruments.

Information about a major customer

Revenue of approximately HK$9,303,000 (2015: HK$34,994,000) was derived from a single customer under the property investment segment.

5 REVENUE, OTHER INCOME AND OTHER NET LOSSES

Revenue represents the aggregate of gross rental income received and receivable from investment properties and the income from property management and related services.

An analysis of revenue, other income and other net losses is as follows:

	2016	2015
	HK$'000	*HK$'000*
Revenue		
Rental income from investment properties	64,889	209,999
Income from property management and related services	1,764	8,692
	66,653	218,691
Other income and other net losses		
Bank interest income	1,703	2,468
Reinstatement compensation	16	380
Foreign exchange differences, net	(974)	(1,217)
Loss on deemed disposal of a joint venture	(7,436)	—
Gain on disposal of subsidiaries	100,510	—
Gain on deemed disposal of an associate	4,941	—
Impairment of goodwill	(12,311)	—
Loss on disposal of an item of property, plant and equipment	—	(105)
Others	(3,235)	82
	83,214	1,608

6 FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on bank loans	161	1,246
Loan arrangement fees	294	1,549
	455	2,795

NOTES TO FINANCIAL STATEMENTS

31 December 2016

7 PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2016 *HK$'000*	2015 *HK$'000*
Depreciation *(note 13)*	**92**	376
Minimum lease payments under operating leases:		
Land and buildings	**1,096**	1,252
Auditors' remuneration	**1,320**	1,200
Staff costs (including executive directors' remuneration *(note 8)*):		
Wages and salaries	**6,312**	15,422
Discretionary bonuses	**260**	21,885
Pension scheme contributions*	**173**	579
	6,745	37,886
Gross rental income	**(64,889)**	(209,999)
Less: Outgoings	**674**	4,395
Net rental income	**(64,215)**	(205,604)
Loss on deemed disposal of a joint venture**	**7,436**	—
Impairment of goodwill**	**12,311**	—
Gain on disposal of subsidiaries**	**(100,510)**	—
Gain on deemed disposal of an associate**	**(4,941)**	—
Foreign exchange differences, net	**974**	1,217

* At 31 December 2016, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2015: Nil).

** These items are included in "Other income and other net losses" in the consolidated statement of profit or loss.

8 DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016	2015
	HK$'000	*HK$'000*
Fees	**1,017**	1,850
Other emoluments:		
Salaries, allowances and benefits in kind	**1,636**	4,645
Discretionary bonuses	**—**	18,600
Pension scheme contributions	**38**	220
	2,691	25,315

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(a) Independent non-executive directors

The fees paid to the independent non-executive directors during the year were as follows:

	2016	2015
	HK$'000	*HK$'000*
Mr. Luk Yu King, James	**350**	380
Mr. Ng Kwok Fu	**250**	270
Mr. Leung Yu Ming, Steven	**250**	270
	850	920

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

8 DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2016					
Executive directors:					
Mr. Cheung Chung Kiu	—	—	—	—	—
Mr. Wong Chi Keung*	—	1,636	—	38	1,674
Mr. Yuen Wing Shing	—	—	—	—	—
Ms. Tung Wai Lan, Iris	—	—	—	—	—
	—	1,636	—	38	1,674
Non-executive directors:					
Mr. Lee Ka Sze, Carmelo*	109	—	—	—	109
Mr. Wong Yat Fai*	58	—	—	—	58
	167	1,636	—	38	1,841
2015					
Executive directors:					
Mr. Cheung Chung Kiu	—	—	10,000	2	10,002
Mr. Wong Chi Keung	—	4,645	4,000	214	8,859
Mr. Yuen Wing Shing	—	—	2,600	2	2,602
Ms. Tung Wai Lan, Iris	—	—	2,000	2	2,002
	—	4,645	18,600	220	23,465
Non-executive directors:					
Mr. Lee Ka Sze, Carmelo	600	—	—	—	600
Mr. Wong Yat Fai	330	—	—	—	330
	930	4,645	18,600	220	24,395

* Resigned on 29 February 2016.

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2015: four) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2015: one) non-director, highest paid employees are as follows:

	2016	2015
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	3,081	1,561
Discretionary bonuses	127	480
Pension scheme contributions	84	72
	3,292	2,113

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2016	2015
HK$500,001 to HK$1,000,000	3	—
HK$1,000,001 to HK$1,500,000	1	—
HK$1,500,001 to HK$2,000,000	—	—
HK$2,000,001 to HK$2,500,000	—	1
	4	1

10 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2016	2015
	HK$'000	*HK$'000*
Current - Hong Kong	4,470	22,647
Current - United Kingdom	4,077	—
Over provision in prior years	(21)	(132)
	8,526	22,515
Deferred *(note 22)*	1,759	5,455
Total tax charge for the year	10,285	27,970

10 INCOME TAX EXPENSE *(continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2016 *HK$'000*	2015 *HK$'000*
Profit before tax	366,397	562,322
Tax at the statutory tax rate of 16.5% (2015: 16.5%)	60,456	92,783
Over provision of tax in prior years	(21)	(132)
Profits attributable to an associate	(29,073)	(42,603)
Profits attributable to a joint venture	(125)	(699)
Income not subject to tax	(25,407)	(22,127)
Expenses not deductible for tax	3,506	253
Tax losses utilised from previous periods	(72)	—
Tax losses not recognised	727	21
Unreognised temporary difference	21	—
Effect of differences on tax rates of subsidiaries operating outside Hong Kong	262	468
Others	11	6
Tax charge at the Group's effective rate	10,285	27,970

11 DIVIDENDS

	2016 *HK$'000*	2015 *HK$'000*
Special cash dividend – HK$3.8 (2015: Nil) per ordinary share	3,038,318	—
Special dividend by distribution in specie (2015: Nil)	2,285,020	—
	5,323,338	—

The directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil). No interim dividend was declared in respect of the current year (2015: Nil).

11 DIVIDENDS *(continued)*

A special cash dividend in the amount of HK$3.8 per share was declared on 28 January 2016 and paid to the shareholders on 4 March 2016, totalling HK$3,038.3 million.

On 29 September 2016, the directors proposed a special dividend satisfied by distribution in specie of approximately 41.66% of the issued capital of its associate, Cross-Harbour, to the Company's shareholders (the "Distribution"). The Distribution was approved at the Company's special general meeting held on 14 November 2016 and was completed on 30 November 2016. The Company's liabilities for the Distribution in the amount of HK$2,285.0 million on the date of settlement of the Distribution were recognised at the fair value of the Cross-Harbour Shares, which was equal to the sum of the quoted market value of the Cross-Harbour Shares in the amount of HK$1,738.8 million as at 30 November 2016 and the premium applied in the amount of HK$546.2 million, with reference to the valuation research performed by Flagship Consulting (Hong Kong) Limited, independent firm of professional qualified valuers.

12 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the years ended 31 December 2016 and 2015 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

The calculation of basic and diluted earnings per share is based on:

	2016	2015
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to ordinary equity holders of the Company	**356,112**	534,352

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year	**799,557,415**	799,557,415

13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Office equipment, furniture and fixtures *HK$'000*	Computer software *HK$'000*	Motor vehicles *HK$'000*	Computer equipment *HK$'000*	Total *HK$'000*
31 December 2016						
At 31 December 2015 and at 1 January 2016:						
Cost	772	474	495	1,296	274	3,311
Accumulated depreciation	(772)	(411)	(467)	(72)	(247)	(1,969)
Net carrying amount	—	63	28	1,224	27	1,342
At 1 January 2016, net of accumulated depreciation	—	63	28	1,224	27	1,342
Additions	11	7	—	—	18	36
Disposal/write-off	—	—	—	(1,276)	—	(1,276)
Depreciation provided during the year	(2)	(13)	(18)	(46)	(13)	(92)
Write-back of depreciation	—	—	—	106	—	106
Disposal of subsidiaries *(note 26)*	—	(12)	—	—	(9)	(21)
At 31 December 2016, net of accumulated depreciation	9	45	10	8	23	95
At 31 December 2016:						
Cost	783	443	495	20	260	2,001
Accumulated depreciation	(774)	(398)	(485)	(12)	(237)	(1,906)
Net carrying amount	9	45	10	8	23	95

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Leasehold improvements *HK$'000*	Office equipment, furniture and fixtures *HK$'000*	Computer software *HK$'000*	Motor vehicles *HK$'000*	Computer equipment *HK$'000*	Total *HK$'000*
31 December 2015						
At 1 January 2015:						
Cost	772	460	495	1,420	262	3,409
Accumulated depreciation	(772)	(397)	(448)	(891)	(210)	(2,718)
Net carrying amount	—	63	47	529	52	691
At 1 January 2015, net of accumulated depreciation	—	63	47	529	52	691
Additions	—	14	—	1,276	17	1,307
Disposal/write-off	—	—	—	(1,400)	(5)	(1,405)
Depreciation provided during the year	—	(14)	(19)	(301)	(42)	(376)
Write-back of depreciation	—	—	—	1,120	5	1,125
At 31 December 2015, net of accumulated depreciation	—	63	28	1,224	27	1,342
At 31 December 2015:						
Cost	772	474	495	1,296	274	3,311
Accumulated depreciation	(772)	(411)	(467)	(72)	(247)	(1,969)
Net carrying amount	—	63	28	1,224	27	1,342

14 INVESTMENT PROPERTIES

	2016	2015
	HK$'000	*HK$'000*
Carrying amount at 1 January	**4,099,900**	3,959,200
Additions	**6,766**	3,565
Acquisition of subsidiaries *(note 25(a))*	**680,148**	—
Acquisition of property through a unit trust *(note 25(b))*	**437,640**	—
Disposal of subsidiaries *(note 26)*	**(4,070,000)**	—
Fair value adjustment	**55,259**	137,135
Exchange realignment	**(116,659)**	—
Carrying amount at 31 December	**1,093,054**	4,099,900

The Group's investment properties were revalued on 31 December 2016 and 2015 based on valuations performed by John D Wood and Savills Valuation and Professional Services Limited, independent firms of professionally qualified valuers, respectively. Selection criteria of valuers include market knowledge, reputation, independence and whether professional standards are maintained.

There is no pledge on the Group's investment properties at 31 December 2016. At 31 December 2015, certain of the Group's investment properties were pledged to banks to secure banking facilities granted to the Group (note 21).

Further particulars of the Group's investment properties are included on page 116.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2016				
Recurring fair value measurement for:				
Investment properties	—	**34,400**	**1,058,654**	**1,093,054**
At 31 December 2015				
Recurring fair value measurement for:				
Investment properties	—	29,900	4,070,000	4,099,900

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

14 INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy *(continued)*

Based on the valuation report, the fair value of investment properties was measured using the sales comparison approach and income capitalisation approach for different properties. Investment properties which fair value was determined by the sales comparison approach were classified as Level 2 of the fair value hierarchy while investment properties which fair value was determined by the income capitalisation approach were classified as Level 3 of the fair value hierarchy.

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties classified as Level 3 of the fair value hierarchy:

	Valuation technique	Significant unobservable inputs	Range	
			2016	2015
Investment properties (classified as Level 3)	Income capitalisation approach	Market yields (reversionary yield)	**3.7% to 4.8%**	4.7% to 4.9%
		Market rental (per square foot)	**GBP51 to GBP70 per year**	HK$42 to HK$700 per month

The fair value of the investment properties which are classified as Level 3 of the fair value hierarchy is determined by using the income capitalisation approach based on capitalisation of net income with due allowance of outgoings and reversionary income potential. Measurement of the fair value is positively correlated to the market rental and inversely correlated to market yields.

15 INVESTMENT IN AN ASSOCIATE

	2016	2015
	HK$'000	*HK$'000*
Share of net assets	—	2,001,265
Goodwill on acquisition	—	235,249
	—	2,236,514

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation and operations	Percentage of ownership interest attributable to the Group 2016	2015
Cross-Harbour	Ordinary shares	Hong Kong	—#	41.66%

The above associate was not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

Cross-Harbour is an investment holding company, incorporated and listed in Hong Kong, with its subsidiaries engaged in the operation of driver training centres and the business of tunnel operation and management in Hong Kong. This associate has been accounted for using the equity method in these financial statements.

Cross-Harbour ceased to be an associate of the Company with effect from 30 November 2016 upon the completion of the Distribution. The Distribution has resulted in the recognition of gain on deemed disposal of associate, calculated as follows:

	HK$'000
Fair value of the Cross-Harbour Shares	2,285,020
Less: Carrying amount of the 41.66% interest on the date of settlement of the Distribution	(2,352,113)
Add: Reclassification of cumulative investment revaluation reserve and other reserves to profit or loss upon the completion of the Distribution	72,034
Gain on deemed disposal of an associate *(note 7)*	4,941

15 INVESTMENT IN AN ASSOCIATE *(continued)*

Impairment testing of goodwill

During the year ended 31 December 2015, there was no impairment of goodwill. Impairment testing in respect of the carrying value of the goodwill on acquisition of the associate is performed at least annually by comparing the recoverable amount of a major cash-generating unit of the associate which has been determined based on a value-in-use calculation. That calculation uses cash flow estimates based on cash flow projection over the fixed investment period of this cash-generating unit. The discount rate before tax applied to the cash flow projection is approximately 6%, which is consistent with the cost of funding of the Group or is a reasonable investment return rate for investments with stable returns.

Extracts of the consolidated operating results and consolidated financial position of the associate, Cross-Harbour, are as follows:

	Year ended 31 December 2016 *HK$'000*	Year ended 31 December 2015 *HK$'000*
Operating results:		
Turnover	**431,005**	397,402
Other revenue and other net losses	**(186,276)**	50,680
Total expenses	**(326,988)**	(290,909)
Share of profits less losses of associates	**546,140**	508,401
Share of profits of a joint venture	**17,663**	16,335
Income tax	**(25,981)**	(18,471)
Profit for the year	**455,563**	663,438
Profit attributable to shareholders of Cross-Harbour	**410,426**	619,808

15 INVESTMENT IN AN ASSOCIATE *(continued)*

	31 December 2015 *HK$'000*
Financial position at:	
Non-current assets	
Interest in associates	1,785,632
Other non-current assets	1,173,231
	2,958,863
Current assets	
Bank deposits and cash	2,086,593
Other current assets	427,054
	2,513,647
Current liabilities	(290,613)
Non-current liabilities	(257,046)
Non-controlling interests	(120,995)
Net assets	4,803,856
Fair value of the Group's investment	1,608,436

16 INVESTMENT IN A JOINT VENTURE

	2016	2015
	HK$'000	*HK$'000*
Share of net liabilities	—	(335)
Loan to the joint venture	—	120,000
	—	119,665

The loan to the joint venture is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, this loan is considered as part of the Group's net investment in the joint venture.

Particulars of the joint venture are as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group 2016	2015
Solent Ventures	Ordinary shares	British Virgin Islands	**100%#**	50%

The above investment is indirectly held by the Company.

Additional 50% of the equity interest of Solent Ventures was acquired by the Group during the year. Upon the completion of the acquisition, Solent Ventures became a wholly-owned subsidiary of the Group on 29 February 2016. Further details of this acquisition are included in note 25(a) to the financial statements.

Solent Ventures is an investment holding company incorporated in the British Virgin Islands, with its subsidiaries engaged in investments in properties in the United Kingdom. This joint venture has been accounted for using the equity method in these financial statements.

17 OTHER INVESTMENTS

	2016	2015
	HK$'000	*HK$'000*
Unlisted investments, at fair value at 1 January	**1,777**	1,627
Fair value adjustment	**(207)**	150
Unlisted investments, at fair value at 31 December	**1,570**	1,777

18 TRADE RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**1,427**	605
Impairment	—	—
	1,427	605

The trade receivables primarily include rental receivables which are normally due on the first day of the billing period. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the trade receivables at the end of the reporting period, based on the invoice date, is as follows:

	2016	2015
	HK$'000	*HK$'000*
0 to 30 days	**1,427**	605

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2016	2015
	HK$'000	*HK$'000*
Neither past due nor impaired	**1,427**	213
Less than 1 month past due	—	392
	1,427	605

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers. Based on the review of the status of these receivables and the related customers, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

19 CASH AND CASH EQUIVALENTS

	2016	2015
	HK$'000	*HK$'000*
Cash and bank balances	**157,899**	107,695
Time deposits	**232,500**	309,443
	390,399	417,138

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

20 TRADE PAYABLES

An aged analysis of the trade payables at the end of the reporting period, based on the invoice date, is as follows:

	2016	2015
	HK$'000	*HK$'000*
0 to 30 days	**79**	735

The trade payables are normally non-interest-bearing within the 30-day period.

21 BANK LOANS, SECURED

	2016	2015
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	—	81,600
	—	81,600
Amounts classified under current liabilities	—	(81,600)
Amounts classified under non-current liabilities	—	—

The bank loans are variable interest rate loans with interest rates based on the HIBOR plus a predetermined spread percentage. The effective interest rates for both the period before the bank loans were fully settled and the year ended 31 December 2015 were 1.33% per annum.

At 31 December 2015, the bank loans are denominated in Hong Kong dollars and secured by:

(a) Mortgages on certain investment properties with an aggregate carrying value of HK$4,070,000,000 and the assignment of rental income from certain properties. In addition, the Company has pledged all the issued shares of certain subsidiaries and subordinated its loans to certain subsidiaries in favour of the lenders of the above bank loans; and

(b) corporate guarantees issued by the Company.

22 DEFERRED TAX

The net deferred tax (liabilities)/assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

		Deferred tax liabilities		Deferred tax assets	
	Notes	Depreciation allowance in excess of related depreciation *HK$'000*	Revaluation of investment properties *HK$'000*	Losses available for offsetting against future taxable profits *HK$'000*	Net *HK$'000*
At 1 January 2015		(77,776)	(1,268)	109	(78,935)
Deferred tax (charged)/credit to the statement of profit or loss during the year	*10*	(4,168)	(1,375)	88	(5,455)
At 31 December 2015 and at 1 January 2016		**(81,944)**	**(2,643)**	**197**	**(84,390)**
Deferred tax charged to the statement of profit or loss during the year	*10*	(533)	(1,125)	(101)	(1,759)
Disposal of subsidiaries	*26*	82,381	—	—	82,381
At 31 December 2016		**(96)**	**(3,768)***	**96**	**(3,768)**

* The underlying investment properties are situated in Mainland China which are subject to corporate income tax of 25% upon disposal.

The Group has tax losses arising in Hong Kong of HK$5,612,000 (2015: HK$20,701,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these tax losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

23 SHARE CAPITAL

Shares

	2016	2015
	HK$'000	*HK$'000*
Authorised:		
1,500,000,000 ordinary shares of HK$0.1 each	**150,000**	150,000
Issued and fully paid:		
799,557,415 (2015: 799,557,415) ordinary shares	**79,956**	79,956

Share options

At a special general meeting held on 21 May 2015, the Company adopted a new share option scheme (the "New Scheme") to replace the Old Scheme. Employees (including directors) of the Group are included in the eligible participants. A total of 79,955,741 shares will be available for issue under the New Scheme, which represents 10% of the Company's issued shares. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. The shares must be taken up under an option not later than 10 years from the date of grant of options. The New Scheme will remain effective until 20 May 2025. No share options have been granted under the New Scheme during the current year and no options were outstanding at 31 December 2016 and 2015.

On 29 April 2005, the Company adopted a share option scheme which then expired on 28 April 2015 (the "Old Scheme"). No share options have been granted under the Old Scheme during the prior years. Accordingly, no options under the Old Scheme remained outstanding at 31 December 2015.

24 RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 51 and 52 of the financial statements.

The Group's contributed surplus originally represented the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

25 ACQUISITIONS

(a) Business Combination

On 29 February 2016, the Group acquired 50% interest in Solent Ventures. After the completion of the acquisition, Solent Ventures and its subsidiaries (the "Solent Ventures's group") became wholly-owned subsidiaries of the Group. Solent Ventures is an investment holding company incorporated in the British Virgin Islands, with its subsidiaries engaged in investment in the properties in the United Kingdom. The purchase consideration of HK$9.9 million for the acquisition was in the form of cash and was fully paid after completion.

The fair values of the identifiable assets and liabilities of Solent Ventures's group as at the date of acquisition were as follows:

	Fair value recognised on acquisition *HK$'000*
Investment properties *(note 14)*	680,148
Prepayments, deposits and other receivables	63
Cash and bank balances	9,435
Other payables and accruals	(7,647)
Shareholders' loan	(686,884)
Total identifiable net liabilities at fair value	(4,885)
Goodwill on acquisition	12,311
	7,426
Satisfied by:	
Cash	9,868
Reclassification from a pre-existing interest in a joint venture to an investment in subsidiaries	(2,442)
	7,426

25 ACQUISITIONS *(continued)*

(a) Business Combination *(continued)*

An analysis of the cash flows in respect of the acquisition of Solent Ventures is as follows:

	HK$'000
Cash consideration	(9,868)
Cash and bank balances acquired	9,435
Shareholders' loans to Solent Ventures	(566,884)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(567,317)

Notes:

(a) Since the acquisition, Solent Ventures's group contributed HK$19,345,000 to the Group's revenue and HK$26,983,000 to the consolidated profit for the year ended 31 December 2016.

(b) Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been HK$70,843,000 and HK$357,625,000, respectively.

25 ACQUISITIONS *(continued)*

(b) Acquisition of property through a unit trust

During the year, the Group acquired an investment property in London, the United Kingdom and their related assets and liabilities at consideration of HK$431.5 million from independent third parties, through Super Gain and Unique Time, which are indirect wholly-owned subsidiaries of the Company. The purchase was by way of acquisition of the entire equity interest in GPUT 4. This transaction has been reflected as purchase of assets and liabilities rather than as business combination.

The net assets acquired in this transaction are as follows:

	HK$'000
Net assets acquired:	
Investment properties *(note 14)*	437,640
Prepayments, deposits and other receivables	60
Cash and bank balances	11,899
Other payables and accruals	(8,593)
Interest-bearing bank and other borrowings	(201,609)
Shareholder's loan	(226,139)
	13,258
Satisfied by:	
Cash	13,258

An analysis of the cash flows in respect of the acquisition of GPUT 4 is as follows:

	HK$'000
Cash consideration	(13,258)
Cash and bank balances acquired	11,899
Shareholders' loan	(418,217)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(419,576)

26 DISPOSAL OF SUBSIDIARIES

	2016
	HK$'000
Net assets disposed of:	
Property, plant and equipment *(note 13)*	21
Investment properties *(note 14)*	4,070,000
Trade receivables	598
Prepayments, deposits and other receivables	9,187
Cash and bank balances	191
Other payables and accruals	(74,327)
Shareholders' loan	(556,574)
Tax payable	(5,568)
Deferred tax liabilities *(note 22)*	(82,381)
	3,361,147
Gain on disposal of subsidiaries *(note 7)*	100,510
	3,461,657
Satisfied by:	
Cash	3,461,657

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	HK$'000
Cash consideration	3,461,657
Cash and bank balances disposed of	(191)
Settlement of shareholders' loan	556,574
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	4,018,040

27 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) The reconciliation of profit before tax to net cash generated from operations is as follows:

	Notes	**2016**	2015
		HK$'000	*HK$'000*
Profit before tax		**366,397**	562,322
Adjustments for:			
Share of results of an associate		**(176,198)**	(258,200)
Share of results of a joint venture		**(756)**	(4,238)
Interest income	*5*	**(1,703)**	(2,468)
Changes in fair value of investment properties		**(55,259)**	(137,135)
Depreciation	*7*	**92**	376
Interest on bank loans	*6*	**161**	1,246
Loss on disposal of an item of property, plant and equipment	*5*	**—**	105
Loss on deemed disposal of a joint venture	*7*	**7,436**	—
Gain on disposal of subsidiaries	*7*	**(100,510)**	—
Gain on deemed disposal of an associate	*7*	**(4,941)**	—
Impairment of goodwill	*7*	**12,311**	—
		47,030	162,008
Increase in trade receivables, other receivables, deposits and prepayments		**(4,444)**	(151)
(Decrease)/increase in trade payables, other payables and accrued expenses		**(20,829)**	17,277
Net cash generated from operations		**21,757**	179,134

(b) Major non-cash transaction

During the year, the Company declared a special dividend of HK$2,285.0 million, satisfied by distribution in specie of the Cross-Harbour Shares, which was completed on 30 November 2016. Further details are set out in note 11 to the financial statements.

28 OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms of ranging from three to thirty five years. Certain leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**41,384**	178,973
In the second to fifth years, inclusive	**165,417**	226,699
Beyond five years	**485,577**	—
	692,378	405,672

(b) As lessee

The Group leases its office properties under operating lease arrangements. The leases for the office properties are negotiated for a term of three years.

At the end of the reporting period, the Group had total future minimum lease payables under non-cancellable operating leases falling due as follows:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**791**	1,457
In the second to fifth years, inclusive	**1,253**	—
	2,044	1,457

29 COMMITMENTS

In addition to the operating lease commitments detailed in note 28(b) above, the Group had the following capital commitments in respect of investment properties at the end of the reporting period:

	2016	2015
	HK$'000	*HK$'000*
Contracted, but not provided for	**—**	215

30 CONTINGENT LIABILITIES

The Group had no contingent liabilities at 31 December 2016. At 31 December 2015, the Group had contingent liabilities in respect of a guarantee provided by the Company for an amount not exceeding HK$235,750,000 in respect of the banking facilities made available to its joint venture, out of which HK$232,041,000 was utilised.

31 RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel of the Group:

	2016	2015
	HK$'000	*HK$'000*
Short term employee benefits	**2,953**	25,286
Post-employment benefits	**65**	291
Total compensation paid to key management personnel	**3,018**	25,577

Further details of directors' emoluments are included in note 8 to the financial statements.

(b) During the year, the Group disposed of its entire interest in its indirect wholly-owned subsidiaries, Y. T. Properties International Limited and Y. T. Property Services Limited (collectively, the "Disposal Group") and the shareholders' loan owing from the Disposal Group to Access Power Group Limited, a company wholly owned by Mr. Cheung Chung Kiu, the Chairman and an executive director of the Company, for a cash consideration of HK$4,018.2 million (the "Disposal"). The Disposal, which constituted a very substantial disposal under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, was approved at the special general meeting of the Company on 18 February 2016 and was completed on 29 February 2016. Further details of the transaction are included in note 26 to the financial statements.

32 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	2016 *HK$'000*	2015 *HK$'000*
Loans and receivables:		
Trade receivables	1,427	605
Other receivables and deposits	9	903
Cash and cash equivalents	390,399	417,138
	391,835	418,646
Available-for-sale financial assets:		
Other investments	1,570	1,777
	393,405	420,423

Financial liabilities

	2016 *HK$'000*	2015 *HK$'000*
Financial liabilities at amortised cost:		
Trade payables	79	735
Other payables	11,021	64,734
Bank loans, secured	—	81,600
	11,100	147,069

33 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in other receivables and deposits, financial liabilities included in other payables and current portion of bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2016				
Available-for-sale investments:				
Other investments	**1,570**	**—**	**—**	**1,570**
At 31 December 2015				
Available-for-sale investments:				
Other investments	1,777	—	—	1,777

During the year, there were no transfers into or out of Level 1 fair value measurements (2015: Nil).

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly comprise bank loans, cash and short term deposits. The main purpose of these financial instruments is to provide funding for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. These risks are limited under the Group's financial risk management policies and practices as summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with a floating interest rate. The Group monitors the movement in interest rates on an ongoing basis and evaluates the exposure and the costs of available hedging for its debt obligations.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax *HK$'000*
2016		
Hong Kong dollar	**25**	**—**
Hong Kong dollar	**(25)**	**—**
2015		
Hong Kong dollar	25	(204)
Hong Kong dollar	(25)	204

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from business activities by operating units in currencies other than the units' functional currencies. The Group's exposure to market risk for changes in foreign currency exchange rates primarily to certain cash equivalents in currency other than the functional currency of the Group's operating subsidiaries.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the GBP exchange rate, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in GBP rate	Increase/ (decrease) in profit before tax
	%	*HK$'000*
2016		
If the Hong Kong dollar weakens against the GBP	**1.0**	**102**
If the Hong Kong dollar strengthens against the GBP	**(1.0)**	**(102)**
2015		
If the Hong Kong dollar weakens against the GBP	—	—
If the Hong Kong dollar strengthens against the GBP	—	—

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to this risk is monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. Trade receivables are mainly rental related and rent is due according to respective tenant lease and the Group obtains rental deposits from certain tenants.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset on the statement of financial position. Except for the financial guarantees given by the Company as disclosed in note 30, the Group does not provide any guarantees which would expose the Group to credit risk.

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the Group's available cash and banking facilities.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand *HK$'000*	Within 12 months *HK$'000*	Over 1 year to 5 years *HK$'000*	Over 5 years *HK$'000*	Total *HK$'000*
2016					
Trade payables	—	79	—	—	79
Other payables	5,953	5,068	—	—	11,021
	5,953	5,147	—	—	11,100
2015					
Bank loans, secured	81,760	—	—	—	81,760
Trade payables	—	735	—	—	735
Other payables	1,118	63,616	—	—	64,734
Guarantee given to bank in connection with facilities granted to a joint venture	232,041	—	—	—	232,041
	314,919	64,351	—	—	379,270

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, utilise banking facilities available to the Group, sell assets to reduce debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using a gearing ratio, which is net bank borrowings (bank borrowings less cash and cash equivalents) divided by the shareholders' funds. The Group actively reviews the gearing ratio and the capital structure to ensure an optimal capital structure by taking into consideration the projected cash flows and profitability, projected capital expenditures and projected business and investment opportunities. As at 31 December 2016, the Group's gearing ratio was zero (2015: zero).

35 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 *HK$'000*	2015 *HK$'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,455,883**	1,974,740
CURRENT ASSETS		
Other receivables	**233**	2,135
Tax recoverable	**10**	—
Cash and bank balances	**8,589**	1,994
Total current assets	**8,832**	4,129
CURRENT LIABILITIES		
Other payables	**8,085**	3,538
Tax payable	**—**	2
Total current liabilities	**8,085**	3,540
NET CURRENT ASSETS	**747**	589
Net assets	**1,456,630**	1,975,329
EQUITY		
Issued share capital	**79,956**	79,956
Reserves *(Note)*	**1,376,674**	1,895,373
Total equity	**1,456,630**	1,975,329

35 STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Attributable to equity holders of the Company				
	Share premium account *HK$'000*	Capital redemption reserve *HK$'000*	Contributed surplus *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2015	95,738	1,350	1,317,168	508,937	1,923,193
2014 final dividend declared and paid	—	—	—	(27,985)	(27,985)
Profit for the year	—	—	—	165	165
Total comprehensive income for the year	—	—	—	165	165
At 31 December 2015 and 1 January 2016	95,738	1,350	1,317,168	481,117	1,895,373
Special cash dividend declared and paid	—	—	—	(3,038,318)	(3,038,318)
Special dividend by way of distribution in specie of shares in an associate	—	—	(1,317,168)	(967,852)	(2,285,020)
Profit for the year	—	—	—	4,804,639	4,804,639
Total comprehensive income for the year	—	—	—	4,804,639	4,804,639
At 31 December 2016	95,738	1,350	—	1,279,586	1,376,674

36 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2017.

PARTICULARS OF PROPERTIES

31 December 2016

INVESTMENT PROPERTIES IN THE UNITED KINGDOM

Location	Use	Lease expiry	Approximate floor area *Sq. ft.*	Group's interest *%*
1 Chapel Place London W1G 0BG United Kingdom	Office	Freehold	34,180 (Net internal)	100
1 Harrow Place London E1 7DB United Kingdom	Hotel	2189	45,528 (Gross internal)	100

INVESTMENT PROPERTIES IN MAINLAND CHINA

Location	Use	Lease expiry	Approximate gross floor area *Sq. ft.*	Group's interest *%*
Certain units of Di Wang Apartment Shun Hing Square No. 333 Shennan East Road Luohu District, Shenzhen	Residential	2045	4,480	100

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below.

	Year ended 31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Property, plant and equipment	1,311	1,155	691	1,342	**95**
Investment properties	3,532,800	3,807,800	3,959,200	4,099,900	**1,093,054**
Investment in an associate	1,660,643	1,794,672	1,954,043	2,236,514	**—**
Investment in a joint venture	—	—	—	119,665	**—**
Other investments	1,790	1,697	1,627	1,777	**1,570**
Current assets	151,602	259,233	388,250	424,741	**392,705**
Current liabilities	(123,029)	(112,843)	(104,706)	(183,530)	**(27,026)**
Net current assets	28,573	146,390	283,544	241,211	**365,679**
Non-current liabilities	(203,865)	(176,574)	(160,535)	(84,390)	**(3,768)**
Net assets	5,021,252	5,575,140	6,038,570	6,616,019	**1,456,630**
EQUITY					
Equity attributable to equity holders of the Company					
Issued share capital	79,956	79,956	79,956	79,956	**79,956**
Reserves	4,941,296	5,495,184	5,958,614	6,536,063	**1,376,674**
Total equity	5,021,252	5,575,140	6,038,570	6,616,019	**1,456,630**
RESULTS					
Revenue	183,272	200,766	211,826	218,691	**66,653**
Profit before tax	498,276	609,828	507,965	562,322	**366,397**
Income tax expense	(23,087)	(25,097)	(25,712)	(27,970)	**(10,285)**
Profit for the year	475,189	584,731	482,253	534,352	**356,112**
Attributable to:					
Equity holders of the Company	475,189	584,731	482,253	534,352	**356,112**