HONG KONG FERRY (HOLDINGS) COMPANY LIMITED

香 港 小 輪 (集 團) 有 限 公 司

(Stock Code 股份代號: 50)

2016 年報
Annual Report

HONG KONG Q-MARK SERVICE SCHEME

CERTIFICATE

This is to certify that

Harbour Cruise - Bauhinia

of North Point East Ferry Pier, North Point, Hong Kong,

has been approved by The Hong Kong Q-Mark Council, Federation of Hong Kong Industries as meeting the prescribed Hong Kong Q-Mark Service Standard

The scope of certification is applicable to

Entertainment and Sumptuous Onboard Dinning

Certificate No. S1018

Original Approval : 1 April 2004
Current Certificate : 1 April 2016
Certificate Expiry : 31 March 2019

Signed for and on behalf of The Hong Kong Q-Mark Council, Federation of Hong Kong Industries

Mr. Bernie Ting
Chairman

INDUSTRY CARES 工業獻愛心

Federation of Hong Kong Industries
Corporate Social Responsibility (CSR) Recognition Scheme
"Industry Cares" 2016

香港工業總會企業社會責任表揚計劃
「工業獻愛心」2016

Outstanding Caring Award
(Enterprise Group)
卓越關懷大獎——企業組別

is presented to

Hong Kong Ferry (Holdings) Co. Ltd.
香港小輪(集團)有限公司

in recognition of the company's significant efforts in Corporate Social Responsibility.

12 July 2016

香港工業總會 FHKI

Reinventing Hong Kong Industries www.industryhk.org

開心工作間 2016

香港小輪(集團)有限公司

茲證明

貴公司成為「開心企業」，
承諾致力發展企業關愛、智慧、韌力及動力，
為員工建設開心工作間。

HAPPY 開心企業 COMPANY

友商有良 2016/17
Partner Employer Award 嘉許計劃

卓越企業嘉許狀

香港小輪（集團）有限公司

宗旨

The Mandatory Provident Fund Schemes Authority
強制性公積金計劃管理局

2015-16
積金好僱主
Good MPF Employer

Presented to
頒予

Hong Kong Ferry (Holdings) Co. Ltd
香港小輪（集團）有限公司

1st 人才企業

ERB人才企業嘉許計劃
ERB Manpower Developer Award Scheme

恭賀
Congratulations to

香港小輪（集團）有限公司
Hong Kong Ferry (Holdings) Co. Ltd.

榮獲 人才企業1st
On receiving the honour of Manpower Developer 1st
2010-18

erb

僱員再培訓局 頒發
Awarded by the Employees Retraining Board

HK 香港企業公民

The 7th Hong Kong Outstanding Corporate Citizenship Logo
第七屆香港傑出企業公民嘉許標誌

Enterprise Category
企業組別

Is awarded to
頒授予

香港小輪(集團)有限公司

2016.12.15

HKPC

中銀香港 BOCHK 企業環保領先大獎 2015

5 Years EcoPioneer

This certificate is presented to
頒此證書予

The Hongkong & Yaumati Ferry Co Ltd
香港油蔴地小輪船有限公司

2016.06.02

中銀香港 BOCHK 企業環保領先大獎 2015

3 Years EcoPioneer

This certificate is presented to
頒此證書予

The Hong Kong Shipyard Ltd
香港船廠有限公司

2016.06.02

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Dr. Lam Ko Yin, Colin *(Chairman)*
Mr. Li Ning

Non-executive Directors:

Mr. Au Siu Kee, Alexander
Mr. Lau Yum Chuen, Eddie
Dr. the Hon. Lee Shau Kee
Mr. Wong Man Kong, Peter

Independent Non-executive Directors:

Mr. Ho Hau Chong, Norman
Mr. Leung Hay Man
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

AUDIT COMMITTEE

Mr. Ho Hau Chong, Norman *(Chairman)*
Mr. Leung Hay Man
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

REMUNERATION COMMITTEE

Mr. Wu King Cheong *(Chairman)*
Dr. Lam Ko Yin, Colin
Mr. Li Ning
Mr. Ho Hau Chong, Norman
Mr. Leung Hay Man
Ms. Wong Yu Pok, Marina

NOMINATION COMMITTEE

Dr. Lam Ko Yin, Colin *(Chairman)*
Mr. Li Ning
Mr. Ho Hau Chong, Norman
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

GROUP GENERAL MANAGER

Ir. Dr. Ho Chi Shing, David

COMPANY SECRETARY

Mr. Yuen Wai Kuen, Peter

AUDITOR

KPMG

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd. Hong Kong Branch
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
OCBC Wing Hang Bank Limited

REGISTERED OFFICE

98 Tam Kon Shan Road
TYTL 102
Ngau Kok Wan
North Tsing Yi
New Territories
Hong Kong

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Facsimile	:	(852) 2786 9001
Website	:	www.hkf.com
E-Mail	:	hkferry@hkf.com

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 50

SHARE REGISTRAR

Tricor Standard Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

DIRECTORS' PROFILE

Dr. Lam Ko Yin, Colin
Chairman

Dr. Lam Ko Yin, Colin, *FCILT, FHKIoD, DB (Hon)*, aged 65, was appointed on 1 July 1986, is the Chairman of the Company. Dr. Lam has over 43 years' experience in banking and property development. He is also a Vice Chairman of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited, a non-executive director of The Hong Kong and China Gas Company Limited and an executive director of Miramar Hotel and Investment Company, Limited, all of which are listed public companies. He is also a director of Wiselin Investment Limited ("Wiselin"), Henderson Development Limited ("Henderson Development"), Graf Investment Limited ("Graf"), Mount Sherpa Limited ("Mount"), Paillard Investment Limited ("Paillard"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"). Henderson Land, Wiselin, Henderson Development, Graf, Mount, Paillard, Hopkins, Rimmer and Riddick have discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance. Dr. Lam is the Deputy Chairman of The University of Hong Kong Foundation for Educational Development and Research and a Director of Fudan University Education Development Foundation. Dr. Lam was awarded an Honorary University Fellowship by The University of Hong Kong in 2008, and was conferred with a degree of Doctor of Business (Honoris Causa) by Macquarie University in 2015. Dr. Lam is a Fellow of The Chartered Institute of Logistics and Transport in Hong Kong and a Fellow of The Hong Kong Institute of Directors.

Mr. Li Ning

Mr. Li Ning, *BSc, MBA*, aged 60, was appointed on 20 October 1989, is an Executive Director of the Company. Mr. Li is also an Executive Director of Henderson Investment Limited, a listed public company. He holds a B.Sc. degree from Babson College and an M.B.A. degree from the University of Southern California. He previously served as an Executive Director of Henderson Land Development Company Limited, a listed public company, until his retirement on 2 June 2015. Mr. Li is the son-in-law of Dr. Lee Shau Kee, a Non-executive Director of the Company.

Mr. Au Siu Kee, Alexander

Mr. Au Siu Kee, Alexander, *OBE, FCA, FCCA, FCPA, AAIA, FCIB, FHKIB*, aged 70, was appointed as an Independent Non-executive Director on 17 January 2005 and re-designated as a Non-executive Director of the Company on 7 November 2005. Mr. Au is a well-known banker in Hong Kong and has more than 32 years' experience in local and international banking business, having been the Chief Executive Officer of Hang Seng Bank Limited (from October 1993 to March 1998) and of Oversea-Chinese Banking Corporation Limited in Singapore (from September 1998 to April 2002). He has been appointed as an independent non-executive director of Henderson Investment Limited since 1 July 2015. He is currently an independent non-executive director of The Wharf (Holdings) Limited and a non-executive director of Miramar Hotel and Investment Company, Limited, all of which are listed public companies. He is the chairman and a non-executive director of Henderson Sunlight Asset Management Limited, the manager of the publicly-listed Sunlight Real Estate Investment Trust. Mr Au has been appointed as a member of the Finance Committee of The Independent Schools Foundation Limited with effect from 5 December 2016. Mr. Au was re-designated as an independent non-executive director of Henderson Land Development Company Limited, a listed public company, on 18 December 2012 until his retirement on 2 June 2015. An accountant by training, Mr. Au is a Fellow of The Institute of Chartered Accountants in England and Wales, The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Lau Yum Chuen, Eddie

Mr. Lau Yum Chuen, Eddie, aged 70, was appointed on 5 May 1988, is a Non-executive Director of the Company. He has over 45 years of experience in banking, finance and investment. Mr. Lau is also an Executive Director of Henderson Land Development Company Limited ("Henderson Land") and Miramar Hotel and Investment Company, Limited, both are listed public companies. Henderson Land has discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance.

Dr. the Hon. Lee Shau Kee, *GBM, DBA (Hon), DSSc (Hon), LLD (Hon)*, aged 88, was appointed on 15 December 1981, is a Non-executive Director of the Company. He has been engaged in property development in Hong Kong for more than 60 years. He is the founder and the Chairman and Managing Director of Henderson Land Development Company Limited ("Henderson Land"), the Chairman of The Hong Kong and China Gas Company Limited, the Vice Chairman of Sun Hung Kai Properties Limited as well as a non-executive director of Miramar Hotel and Investment Company, Limited. He is the founder, and continues to act as Executive Director of Henderson Investment Limited after his stepping down as Chairman and Managing Director on 1 July 2015. All the above companies are listed public companies. Dr. Lee was awarded Grand Bauhinia Medal by the Government of the Hong Kong Special Administrative Region in 2007. He is a director of Pataca Enterprises Limited ("Pataca"), Wiselin Investment Limited ("Wiselin"), Henderson Development Limited ("Henderson Development"), Graf Investment Limited ("Graf"), Mount Sherpa Limited ("Mount"), Paillard Investment Limited ("Paillard"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"). Henderson Land, Pataca, Wiselin, Henderson Development, Graf, Mount, Paillard, Hopkins, Rimmer and Riddick have discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance. Dr. Lee is the father-in-law of Mr. Li Ning, an Executive Director of the Company.

Dr. the Hon. Lee Shau Kee

Mr. Wong Man Kong, Peter, *BBS, JP, BSc, FCILT, MRINA*, aged 68, was appointed on 9 March 1992, is a Non-executive Director of the Company. Mr. Wong was the President and Chief Executive Officer of the Company from 1992 to 1995. Mr. Wong has over 44 years of industrial, commercial and public service experience, having served as Director of Kowloon-Canton Railway Corporation and a member in Hong Kong Government's Transport Advisory Board, Industry Development Board and Trade Advisory Board. He was also a member of the Hong Kong Special Administrative Region Preparatory Committee in 1996/1997 and a member of the Election Committee of the Second Chief Executive of the Hong Kong Special Administrative Region in 2002. He is serving as a deputy to the 12th National People's Congress of the People's Republic of China. Mr. Wong is the Chairman of M.K. Corporation Limited and North West Development Limited. Currently he holds directorship of Glorious Sun Enterprises Limited, China Travel International Investment Hong Kong Limited, Chinney Investments, Limited, Sun Hung Kai & Co. Limited, Sino Hotels (Holdings) Limited, Far East Consortium International Limited, New Times Energy Corporation Limited and MGM China Holdings Limited, all of which are listed public companies.

Mr. Wong Man Kong, Peter

Mr. Ho Hau Chong, Norman

Mr. Ho Hau Chong, Norman, *BA, ACA, FCPA*, aged 61, was appointed on 28 March 1995, is an Independent Non-executive Director of the Company. Mr. Ho is a member of the Institute of Chartered Accountants in England and Wales and a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Ho is an Executive Director of Honorway Investments Limited and Tak Hung (Holding) Company, Limited and has over 25 years of experience in management and property development. He is also a Director of Lee Hing Development Limited, Miramar Hotel and Investment Company, Limited, Vision Values Holdings Limited and Shun Tak Holdings Limited, all of which are listed public companies. He was previously a director of Taifook Securities Group Limited. Mr. Ho previously served as a director of CITIC Pacific Limited, until 12 May 2011 and an independent non-executive director of Starlight International Holdings Limited, until his retirement on 26 August 2013, both are listed public companies.

Mr. Leung Hay Man

Mr. Leung Hay Man, *FRICS, FCIArb, FHKIS*, aged 82, was appointed on 15 December 1981 and was re-designated as an Independent Non-executive Director of the Company on 15 October 2012. He is a Chartered Surveyor. Mr. Leung was also re-designated as an Independent Non-executive Director of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited on 22 August 2012 and is an Independent Non-executive Director of The Hong Kong and China Gas Company Limited, all of which are listed public companies. Henderson Land has discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance.

Ms. Wong Yu Pok, Marina, *JP*, aged 68, was appointed on 8 May 2008, is an Independent Non-executive Director of the Company. Ms. Wong joined PricewaterhouseCoopers in 1968 and was responsible for the development of the firm's business in Mainland China since 1980. After her retirement as a partner from PricewaterhouseCoopers in July 2004, she joined Tricor Services Limited as a director from September 2004 to February 2006. Ms. Wong is a member of a number of Government advisory and other bodies in Hong Kong, including The Dental Council of Hong Kong and was the Chairman of The Applied Research Council up to February 2017. Ms. Wong is the Vice-Chairman of the Hong Kong Federation of Women and a director of China Tibetan Children Health & Education Fund. An accountant by training, Ms. Wong is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. She is also an Independent Non-Executive Director of Kerry Properties Limited, Luk Fook Holdings (International) Limited and Kerry Logistics Network Limited, all of which are listed public companies in Hong Kong. She ceased to act as an independent director of China World Trade Center Co. Ltd on 23 November 2016, a company listed on the Shanghai Stock Exchange.

Ms. Wong Yu Pok, Marina

Mr. Wu King Cheong, *BBS, JP*, aged 66, was appointed as an Independent Non-executive Director of the Company on 17 January 2005. He is the Life Honorary Chairman of the Chinese General Chamber of Commerce, the Honorary Permanent President of the Chinese Gold & Silver Exchange Society and the Permanent Honorary President of the Hong Kong Securities Association Limited. Mr. Wu is currently an independent non-executive director of Yau Lee Holdings Limited, Henderson Land Development Company Limited ("Henderson Land"), Henderson Investment Limited and Miramar Hotel and Investment Company, Limited, all of which are listed public companies. Henderson Land has discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance. Mr. Wu was awarded an Honorary Fellowship by Lingnan University in 2009.

Mr. Wu King Cheong

SENIOR MANAGEMENT'S PROFILE

The Senior Management of the Company is as follows:

Ir. Dr. Ho Chi Shing, David	Group General Manager and General Manager – Ferry and Property Operations
Mr. Leung Shu Keung, Brian	Internal Audit Manager
Mr. Wong Kam Chuen, Terence	Deputy General Manager – Finance and Accounts
Mr. Yuen Wai Kuen, Peter	Company Secretary

Ir. Dr. Ho Chi Shing, David, *JP, DBA, FCILT, FHKIE, FCIM, FHKIoD, MPIA, MCIArb, MCIHT*, aged 60, joined the Company in 1981 and has been the Group General Manager since 1996. He has over 36 years of experience in ferry operations. Dr. Ho was appointed as a Justice of the Peace in 2013. He is presently a member of the Logistics Industry Training Advisory Committee, the Deputy Convener of Transportation & Logistics Industry Consultative Network of Employees Retraining Board, a Director of The Shipowners' Mutual Protection & Indemnity Association (Luxembourg), a Council Member of the Chartered Institute of Logistics and Transport in Hong Kong, a member of the Standing Committee on Language Education and Research, the Chairman of Adventure-Ship, a board member of The Hong Kong Sea School, an Adjunct Professor at the College of Business of City University of Hong Kong and a member to the Review Committee of The Dental Council of Hong Kong. Dr. Ho has been extensively involved in works of the Vocational Training Council and was awarded VTC Honorary Fellow Award in 2007. He is currently the Chairman of the Transport Logistics Training Board and the Chairman of Languages Discipline Advisory Board. Dr. Ho is also a General Committee Member and the Chairman of the Transport and Logistics Services Council of the Federation of Hong Kong Industries.

Mr. Leung Shu Keung, Brian, *BA, CIA, CRMA, CFE, CBM, PgD*, aged 55, is the Internal Audit Manager of the Company. He joined the Company in 1992 and has over 27 years of experience in accounting, auditing and management assurance.

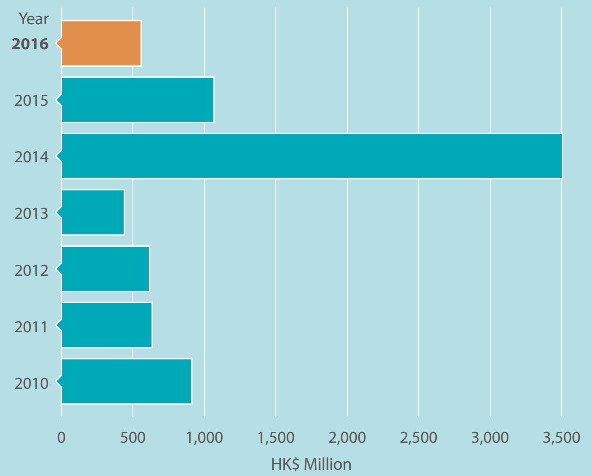
Mr. Wong Kam Chuen, Terence, *MCF, BA(Hons), FCCA, CPA, ACIS, ACS*, aged 48, has been the Deputy General Manager of Finance and Accounts Department of the Company since September 2013. He joined the Company in 1995 and has over 20 years of experience in accounting, auditing and corporate finance.

Mr. Yuen Wai Kuen, Peter, *BA(Hons), MBA, FCIS, FCS, FFA*, aged 58, has joined the Company in January 2005 and has been appointed Company Secretary of the Company on 1 April 2005. Mr. Yuen has over 20 years of experience in company secretarial, corporate advisory and general management.

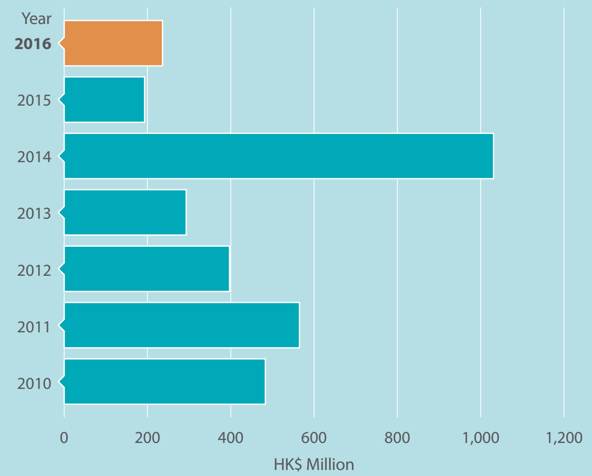
FINANCIAL HIGHLIGHTS

		2016	2015	Variance
Revenue	*HK$M*	**562**	1,068	-47.4%
Profit attributable to shareholders	*HK$M*	**237**	193	22.8%
Dividends	*HK$M*	**128**	128	–
Shareholders' funds	*HK$M*	**5,790**	5,652	2.4%
Basic earnings per share	*HK$*	**0.66**	0.54	22.2%
Dividend per share	*HK Cents*	**36.0**	36.0	–
Dividend cover	*Times*	**1.8**	1.5	20.0%
Return on equity	*%*	**4.1**	3.4	20.6%
Net assets per share	*HK$*	**16.3**	15.9	2.5%

Group Revenue



Profit attributable to shareholders



CHAIRMAN'S STATEMENT

I am pleased to present to the shareholders my report on the operations of the Group for the year ended 31 December 2016.

Dr. Lam Ko Yin, Colin
Chairman

BUSINESS RESULTS

The Group's consolidated profit after taxation for the year ended 31 December 2016 amounted to approximately HK$237 million, an increase of 23% as compared with the profit after taxation of HK$193 million last year. The earnings per share this year were HK$0.66 compared with the earnings per share of HK$0.54 in the previous year.

DIVIDENDS

The Board of Directors has recommended the payment of a final dividend for the year ended 31 December 2016 of HK26 cents per share (2015: HK26 cents per share). Subject to shareholders' approval at the annual general meeting to be held on Thursday, 25 May 2017, the final dividend will be paid on or about Wednesday, 14 June 2017 to shareholders whose names appear on the register of members of the Company on Tuesday, 6 June 2017. The final dividend, together with the interim dividend of HK10 cents per share has already paid, will make a total distribution of HK36 cents for the full year.

BUSINESS REVIEW

During the year under review, profit for the Group was mainly derived from the sale of the residential units of Metro6, Green Code and Shining Heights.

Property Development and Investment Operations

During 2016, the profit of the Group from the sale of Metro6, Green Code and Shining Heights amounted to HK$129 million. The numbers of unsold units of Metro6 and Green Code were 6 and 7 respectively at the year end. The sale of Harbour Park was satisfactory and 145 units were sold during the year, representing 90% of the total number of units.

The gross rental income from the commercial arcades of the Group amounted to approximately HK$89 million. As at the end of 2016, the occupancy rate of commercial podium of Metro6 was 97% and the commercial arcades of Shining Heights and The Spectacle were fully let. The occupancy rate of commercial arcades of Metro Harbour View was 98%. The committed tenancy of Green Code Plaza was 84%.

Joint Venture Company

The Group through its 50%/50% joint venture with Empire Group Holdings Limited owned by Dr. Walter Kwok Ping Sheung successfully acquired the land for residential use at Tuen Mun Town Lot No. 547 located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories, for HK$2,708.8 million last year. The land is of a site area of 165,766 square feet and a gross floor area of approximately 663,000 square feet. It faces Gold Coast at the front and Harrow International School Hong Kong at the back. The preliminary design and preparation works of the project are in progress to build approximately 1,800 condominiums by phases in six years.

Ferry, Shipyard and Related Operations

During the year under review, the Ferry, Shipyard and Related Operations recorded a profit of HK$14 million, similar to that of last year.

Discontinued Operation – Travel Operation

During the year under review, the Travel Operation recorded a loss of HK$7.9 million. But the Group recorded a one-off profit of HK$4.6 million upon disposal of the Travel Operation to Miramar Travel Limited in October 2016.

Securities Investment

During the year, a loss of HK$7 million in Securities Investment was recorded mainly due to the impairment loss on securities investment in excess of the income from and disposal gain of securities.

Green Code

PROSPECTS

The economies of China and Hong Kong grew 6.7% and 1.9% respectively in 2016. In 2017, the global politics and economy face numerous uncertainties, including the U.S. President Donald Trump's trade policy, protectionism and his Sino-US relationship, the Brexit as well as the elections in the Netherlands, France and Germany, etc. Notwithstanding the above, Hong Kong's economic performance in 2017 is expected to be satisfactory. With the further improvement in the U.S. economy and China's policy of "Maintain stable Growth, Promote Reform, Improve Living Standards", Hong Kong's economy is expected to grow steadily.

Since December last year, the numbers of incoming tourists to Hong Kong have increased in two consecutive months. If this trend prevails, the retail market is expected to further stabilise. As for real estates, due to the repeated aggressive bidding of land plots by mainland developers in public tenders, home buyers expect further appreciation in price of residential properties. The transactions in first-hand property market recently turned active. Despite the possible increase in the mortgage interest rate in Hong Kong following the rise of interest rate in U.S., it may not necessarily cool down the desire to purchase properties.

The Group acquired one half of the land plot in Tuen Mun Town Lot No. 547 in August last year. The accommodation value of approximately HK$4,100 per square foot is relatively low as compared with the subsequent tender of land in the vicinity. The Group is now developing the plot in full speed in order to bring satisfactory returns to the shareholders. The proceeds from the sale of the remaining units of Metro6 and Green Code will be the main source of income of the Group in 2017.

ACKNOWLEDGEMENT

On behalf of the shareholders and the Board, I would like to take this opportunity to express appreciation to all our staff for their dedication and hard work during the year.

Dr. Lam Ko Yin, Colin
Chairman

Hong Kong, 17 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

The following comments should be read in conjunction with the Audited Consolidated Financial Statements of the Company and the related notes to the financial statements.

REVIEW OF RESULTS

The Group's revenue from continuing and discontinued operations for the year amounted to approximately HK$562 million, representing a decrease of 47% when compared to the previous year. This was mainly attributed to the decrease in the sale of residential units of Metro6 and Green Code.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year under review, the Group disposed of its travel operation business to Miramar Travel Limited, being a related party of the Group. The transaction was completed in October 2016.

During the year, the Group through its 50%/50% joint venture with Empire Group Holdings Limited ("Empire Group") which is owned by Dr. Walter Kwok Ping Sheung successfully awarded a tender for the land at Tuen Mun Town Lot No. 547 located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories at a land premium of HK$2,708.8 million.

In December 2016, the Group entered into a shareholders' agreement with Empire Group to govern the respective rights and obligations of the joint venture company. The entire issued share capital of the joint venture is owned as to 50% by the Group and 50% by Empire Group.

Green Code

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As of 31 December 2016, shareholders' fund of the Group showed an increase of around 2.4% as compared to the previous year and amounted to approximately HK$5,790 million. The increase was mainly due to the net effect of the profit realised from property sales, the gains on revaluation of the Group's investment properties, impairment loss on securities and the payment of dividends.

There was no change to the capital structure of the Group during the year. Funding for the Group's activities during the year under review was mainly generated from the sale of residential units of Metro6, Green Code and Shining Heights.

Current assets of the Group were recorded at approximately HK$2,333 million and the current liabilities were approximately HK$671 million as of 31 December 2016. Current ratio of the Group had been decreased to 3.5 as at 31 December 2016, mainly attributed to the decrease in cash and bank balances.

GEARING RATIO AND FINANCIAL MANAGEMENT

As there was no borrowing as at 31 December 2016, no gearing ratio, which is calculated on the basis of bank borrowing as a ratio of the Group's shareholders' fund, was shown. Assets of the Group had not been charged to any third parties in the year under review.

The Group's financing and treasury activities were managed centrally at the corporate level. Financing facilities extended to the Group were denominated in Hong Kong dollar.

EMPLOYEES

As at 31 December 2016, the number of employees of the Group stood at about 210 (2015: about 300). The remuneration packages to employees were commensurable to the market trend and levels of pay in similar industries. A discretionary year-end bonus was paid to employees based on individual performance. Other benefits to employees included medical insurance, retirement scheme, training programmes and educational subsidies. Total employees' costs for the year amounted to approximately HK$95 million, which was commensurate with that recorded in the previous year.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their Annual Report together with the audited financial statements for the year ended 31 December 2016.

PRINCIPAL PLACE OF BUSINESS

Hong Kong Ferry (Holdings) Company Limited (the "Company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 98 Tam Kon Shan Road, TYTL 102, Ngau Kok Wan, North Tsing Yi, New Territories, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are property development, property investment, ferry, shipyard and related businesses and securities investment.

The analysis of the principal activities of the Company and its subsidiaries (the "Group") during the financial year are set out in note 3 to the financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year is provided in Management Discussion and Analysis on page 12 and Chairman's Statement on pages 10 and 11 of this Annual Report. A discussion on the Group's future business development is provided in the Chairman's Statement on pages 10 and 11 of this Annual Report. Description of the principal risks and uncertainties that the Group may be facing can be found in the Chairman's Statement on pages 10 and 11 and the section of Risk Management and Internal Controls on pages 32 to 35 of Corporate Governance Report of this Annual Report. Financial risk management of the Group can be found in note 26 to the financial statements on pages 130 to 134 of this Annual Report. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Highlights on page 9 and Ten Years' Financial Summary on pages 146 and 147 of this Annual Report respectively.

Discussions on the Group's environmental policies and performance, relationships with its key stakeholders which have a significant impact on the Group are contained in Environmental, Social and Governance Report on pages 38 to 59 of this Annual Report. These discussions form part of this Report of the Directors.

Discussion on Environmental Policies and Performance

The Hong Kong Ferry Group pursues environmental stewardship with a great sense of responsibility and drive. The Group effectively assesses and manages our environmental footprint in a systematic manner which drives continuous improvement. An Energy and Carbon Management Programme has been implemented since 2011, while we also conduct carbon audits for our two fuel-intensive shipyard subsidiaries in 2014. Further contributing to our efforts to curb our emissions of greenhouse gases and other air pollutants, we have successfully completed the Engine and Generator Replacement Programme which has been in progress since 2005.

Our principal office and subsidiaries continue to make substantial investment in energy retrofits ensuring measureable energy-savings which are monitored by commissioned consultants. As a result, our Year 2016 Energy Baseline has been established and is expected to report our target-setting for the coming years. The Group's efforts in water preservation were enhanced through the installation of an on-site rainwater harvesting tank at The Hong Kong Shipyard Limited. Each of our subsidiaries continue to make efforts in environmental mitigation through various waste management practices.

Account of Key Relationships with Employees, Customers and Suppliers

The highest standard of business ethics underlies the Group's relationship with our key stakeholders. We take the needs and interests of our employees, customers and suppliers into account at all times.

Employees

Our employees are fundamental to our success. The Group seeks to reward our staff with competitive remuneration and welfare packages, and provides opportunities for career progression through a fair annual appraisal exercise. As an equal opportunity employer, our talent acquisition process is conducted with impartiality, ensuring compliance to all relevant anti-discriminatory and privacy regulations. The continuous development and education of our employees is a top concern, and both internal and external training courses are utilized to fulfil this need.

To safeguard the health and safety of our employees, the Group has established a Safety Committee governing the management of all potential risks at The Hong Kong Shipyard Limited. Routine safety inspections ensure all established protocols are subject to review and rectify as necessary.

BUSINESS REVIEW (Continued)

Account of Key Relationships with Employees, Customers and Suppliers (Continued)

Customers

The Group is committed to delivering services of superior quality to our customers. Each of our business units carry out periodic customer satisfaction surveys which consistently show high satisfaction rates. Comprehensive analysis of all results enable the swift identification of opportunities for improvement. Our shipyard operations are certified with the ISO 9001 Quality Management System, which provides strict guidance on ensuring the provision of quality and reliable services. Company-wide, all subsidiaries enact strict policies to observe all customer data privacy and intellectual property rights.

Suppliers

To forge long-term relationships with our suppliers, the Group manages a database of approved contractors and vendors which is regularly subject to review. The Supplier Evaluation Report and Supplier Performance Review is used to assess suppliers' performance in quality assurance, as well as compliance to safety and environmental regulations. The Group's Code of Conduct supports the value of open competition during all tendering procedures, which ensures the impartial selection of competent suppliers and contractors.

Compliance Status with Relevant Laws and Regulations that have a Significant Impact on the Business

During the reporting year, the Group encountered no cases of non-compliance with applicable standards, laws and regulations on the environment, occupational health and safety, and data privacy in Hong Kong. This regulation continued to pose no material risk to our operations.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's purchases attributable to the major suppliers during the year is as follows:

	Percentage of the Group's total purchases
The largest supplier	42.4%
Five largest suppliers in aggregate	54.2%

No analysis in respect of the Group's major customers is shown as the percentage of revenue attributable to the Group's five largest customers is less than 30%.

Apart from the foregoing, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the number of issued shares of the Company) had any interest in these major customers and suppliers.

SUBSIDIARIES

Details of the principal subsidiaries of the Company at 31 December 2016 are set out in note 14 to the financial statements.

FINANCIAL STATEMENTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2016 and the financial position of the Group at that date are set out in the financial statements on pages 66 to 144.

An interim dividend of HK10 cents per share (2015: HK10 cents per share) was paid on 29 September 2016. The Board of Directors has recommended the payment of a final dividend for the year ended 31 December 2016 of HK26 cents per share (2015: HK26 cents per share). Subject to shareholders' approval at the annual general meeting to be held on Thursday, 25 May 2017 (the "2017 annual general meeting"), the final dividend will be paid on or about Wednesday, 14 June 2017 to shareholders whose names appear on the register of members of the Company on Tuesday, 6 June 2017.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$7,568 (2015: HK$3,960).

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25 to the financial statements.

DIRECTORS

The directors of the Company during the year ended 31 December 2016 and up to the date of this report were:

Executive Directors

Dr. Lam Ko Yin, Colin *(Chairman of the Board)*
Mr. Li Ning

Non-executive Directors

Mr. Au Siu Kee, Alexander
Mr. Lau Yum Chuen, Eddie
Dr. the Hon. Lee Shau Kee
Mr. Wong Man Kong, Peter

Independent Non-executive Directors

Mr. Ho Hau Chong, Norman
Mr. Leung Hay Man
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

A list of the names of the Directors of the Group's subsidiaries is available on the website of the Company (www.hkf.com).

In accordance with Article 103(A) of articles of association of the Company (the "Articles of Association") and Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Mr. Lau Yum Chuen, Eddie, Mr. Wong Man Kong, Peter, Mr. Leung Hay Man and Ms. Wong Yu Pok, Marina shall retire by rotation at the 2017 annual general meeting, and, being eligible, offer themselves for re-election. Ms. Wong Yu Pok, Marina, an Independent Non-executive Director, has served the Company for more than nine years. Pursuant to the Code, her re-election shall be subject to a separate resolution to be approved by the shareholders at the 2017 annual general meeting.

The Company has received from each Independent Non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considered all of them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and Senior Management are set out on pages 3 to 8 of this Annual Report.

DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of Directors' and Chief Executive's emoluments are set out in note 8 to the financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for the "Connected Transactions" as disclosed in this report, no other transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the 2017 annual general meeting has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment other than statutory compensation.

PERMITTED INDEMNITY PROVISION

According to the Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities to the fullest extent permitted by the Companies Ordinance, Chapter 622 of the Laws of Hong Kong which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

DISCLOSURE OF INTERESTS

Directors' Interests in Securities

As at 31 December 2016, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or which were notified to the Company or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Interests

	THE COMPANY				
	Personal Interests *Number of Shares*	**Corporate Interests** *Number of Shares*	**Family Interests** *Number of Shares*	**Total Interests** *Number of Shares*	**Approximate percentage of the total number of issued shares**
Dr. Lam Ko Yin, Colin	150,000	–	–	150,000	0.04%
Mr. Au Siu Kee, Alexander	–	–	–	–	0.00%
Mr. Ho Hau Chong, Norman	3,313,950	–	–	3,313,950	0.93%
Mr. Lau Yum Chuen, Eddie	–	–	–	–	0.00%
Dr. Lee Shau Kee	799,220	119,017,090 *(Note 5 on page 18)*	–	119,816,310	33.63%
Mr. Leung Hay Man	2,250	–	–	2,250	0.00%
Mr. Li Ning	–	–	119,017,090 *(Note 4 on page 18)*	119,017,090	33.41%
Mr. Wong Man Kong, Peter	1,051,000	–	–	1,051,000	0.29%
Ms. Wong Yu Pok, Marina	–	–	–	–	0.00%
Mr. Wu King Cheong	–	–	–	–	0.00%

	2OK COMPANY LIMITED	
	Corporate Interests *Number of Shares*	**Family Interests** *Number of Shares*
Dr. Lee Shau Kee *(Note 1)*	5	–
Mr. Li Ning *(Note 2)*	–	5

	WINWIDE LIMITED	
	Corporate Interests *Number of Shares*	**Family Interests** *Number of Shares*
Dr. Lee Shau Kee *(Note 3)*	70	–
Mr. Li Ning *(Note 4)*	–	70

DISCLOSURE OF INTERESTS (Continued)

Directors' Interests in Securities (Continued)

Interests (Continued)

Notes:

1. These 5 shares representing 50% equity interest in 2OK Company Limited (an associated company in which the Company through a subsidiary owned the remaining 50% interest) were beneficially owned by wholly-owned subsidiaries of Henderson Land Development Company Limited ("HLD"). Henderson Development Limited ("HD") beneficially owned more than one-third of the total number of issued shares of HLD. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of respective discretionary trusts held units in a unit trust (the "Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust owned all the issued ordinary shares which carried the voting rights in the share capital of HD. Dr. Lee Shau Kee beneficially owned all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee was taken to be interested in these 5 shares in 2OK Company Limited.

2. By virtue of the SFO, Mr. Li Ning was taken to be interested in these 5 shares in 2OK Company Limited as Mr. Li's spouse was one of the discretionary beneficiaries of the two discretionary trusts holding units in the Unit Trust.

3. These 70 shares representing 70% equity interest in Winwide Limited (an associated company in which the Company through a subsidiary owned the remaining 30% interest) were beneficially owned by a company in which HLD had a 40% interest. HD beneficially owned more than one-third of the total number of issued shares of HLD. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of respective discretionary trusts held units in the Unit Trust. Hopkins (Cayman) Limited as trustee of the Unit Trust owned all the issued ordinary shares which carried the voting rights in the share capital of HD. Dr. Lee Shau Kee beneficially owned all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee was taken to be interested in these 70 shares in Winwide Limited.

4. By virtue of the SFO, Mr. Li Ning was taken to be interested in these 70 shares in Winwide Limited as Mr. Li's spouse was one of the discretionary beneficiaries of the two discretionary trusts holding units in the Unit Trust.

Other than as stated above, no directors or chief executives of the Company had any interest or short position, whether beneficial or non-beneficial, in the shares (in respect of positions held pursuant to equity derivatives), underlying shares and debentures of the Company or any of its associated corporations as at 31 December 2016.

SUBSTANTIAL SHAREHOLDERS AND OTHERS

As at 31 December 2016, the interests in ordinary shares of the Company of every person as recorded in the register required to be kept under Section 336 of the SFO were as follows:

	Number of shares in which interested	Approximate percentage of the total number of issued shares
Substantial Shareholders		
Henderson Land Development Company Limited *(Note 1)*	119,017,090	33.41%
Pataca Enterprises Limited *(Note 1)*	119,017,090	33.41%
Wiselin Investment Limited *(Note 1)*	48,817,090	13.70%
Henderson Development Limited *(Note 2)*	119,017,090	33.41%
Hopkins (Cayman) Limited *(Note 3)*	119,017,090	33.41%
Rimmer (Cayman) Limited *(Note 3)*	119,017,090	33.41%
Riddick (Cayman) Limited *(Note 3)*	119,017,090	33.41%
Mr. Li Ning *(Note 4)*	119,017,090	33.41%
Dr. Lee Shau Kee *(Note 5)*	119,816,310	33.63%
Persons other than Substantial Shareholders		
Graf Investment Limited *(Note 1)*	23,400,000	6.57%
Mount Sherpa Limited *(Note 1)*	23,400,000	6.57%
Paillard Investment Limited *(Note 1)*	23,400,000	6.57%

Notes:

1. These 119,017,090 shares included the 48,817,090 shares, 23,400,000 shares, 23,400,000 shares and 23,400,000 shares respectively beneficially owned by Wiselin Investment Limited, Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, all of which were subsidiaries of Pataca Enterprises Limited which in turn was a subsidiary of Henderson Land Development Company Limited ("HLD").

2. These 119,017,090 shares are duplicated in the interests described in Note 1. Henderson Development Limited ("HD") beneficially owned more than one-third of the total number of issued shares of HLD.

3. These 119,017,090 shares are duplicated in the interests described in Notes 1 and 2. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of respective discretionary trusts held units in a unit trust (the "Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust owned all the issued ordinary shares, which carry the voting rights in the share capital of HD.

4. By virtue of the SFO, Mr. Li Ning was taken to be interested in these 119,017,090 shares as Mr. Li's spouse was one of the discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust. These 119,017,090 shares are duplicated in the interests described in Notes 1, 2 and 3.

5. Dr. Lee Shau Kee beneficially owned all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee was taken to be interested in 119,017,090 shares which are duplicated in the interests described in Notes 1, 2 and 3. Together with his personal shareholding of 799,220 shares, Dr. Lee Shau Kee was taken to be interested in 119,816,310 shares (approximately 33.63% of the total number of issued shares of the Company) as at 31 December 2016.

Save as disclosed, as at 31 December 2016, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company.

RESERVES

Profits attributable to shareholders, before dividend, of HK$236,678,000 (2015: HK$192,915,000) have been transferred to reserves. Other movements in reserves during the year are set out in note 25 to the financial statements.

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

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

ARRANGEMENT TO PURCHASE SHARES, WARRANTS, OPTIONS OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors, chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares, options, debentures or warrants of the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2016, the Company has not entered into any equity-linked agreements.

FINANCIAL SUMMARIES

The five years' summary of assets and liabilities and ten years' financial summary of the Group are set out on pages 145 to 147 of this Annual Report.

GROUP PROPERTIES

A summary of the Group's properties is set out on pages 148 and 149 of this Annual Report.

RETIREMENT PLANS

The Group's Hong Kong employees participate either in a defined benefit retirement scheme or a Mandatory Provident Fund scheme. Particulars of these retirement plans are set out in note 18 to the financial statements.

CONNECTED TRANSACTIONS

Pursuant to the transactions and arrangements entered into by the Group with persons who are connected persons for the purposes of the Listing Rules, the Group recorded the transactions as described in note 30 to the financial statements.

Continuing Connected Transactions

For the year ended 31 December 2016 and up to the date of this Annual Report, the Company and/or its subsidiaries have been entered into certain continuing connected transactions, with details below, which were subject to reporting, and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules:

	Date	Connected Persons	Transactions
1.	5 September 2013	Henderson Real Estate Agency Limited ("HREAL"), a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD")	Hung Hom Project Management Agreement between Well Dynamic Limited ("WDL"), a wholly-owned subsidiary of the Company, and HREAL, for the appointment of HREAL as the project manager for the development of Hung Hom Inland Lot No. 555, Kowloon, Hong Kong located at the junction of Gillies Avenue South and Bulkeley Street, Hung Hom, Kowloon, Hong Kong (the "Hung Hom Property") for a term of three years commencing from 5 September 2013. The aggregate remuneration for the services to be provided by HREAL shall be subject to a total annual ceiling of HK$600,000 for the year ended 31 December 2016. Details of the Hung Hom Project Management Agreement were set out in the announcement of the Company dated 5 September 2013. Hung Hom Project Management Agreement expired on 4 September 2016.
2.	24 December 2013	Henderson Property Agency Limited ("HPAL"), a wholly-owned subsidiary of HLD	Hung Hom Sales Management Agreement between WDL and HPAL, for the appointment of HPAL as the sales manager of the development of the Hung Hom Property for a term of three years commencing from 1 January 2014. The sales fee of half of one per cent. (0.5%) of the gross proceeds of sale of the residential units and other portions of the Hung Hom Property shall be subject to the ceiling of HK$1,500,000 for the year ended 31 December 2016. Details of the Hung Hom Sales Management Agreement were set out in the announcement of the Company dated 24 December 2013. Hung Hom Sales Management Agreement expired on 31 December 2016.

CONNECTED TRANSACTIONS (Continued)

Continuing Connected Transactions (Continued)

	Date	Connected Persons	Transactions
	6 January 2017	HPAL	WDL entered into the Letter Agreement with HPAL for the appointment of HPAL as the sales manager to provide the Services (as defined in the Hung Hom Sales Management Agreement) in respect of the sale and purchase of the remaining residential units of the Hung Hom Property for a further period of one year commencing from 1 January 2017 and ending on 31 December 2017. The aggregate amount of fees receivable by HPAL as remuneration under the appointment shall be subject to a ceiling of HK$1,000,000 for the year ending 31 December 2017.
3.	28 March 2014	Citistore (Hong Kong) Limited ("Citistore"), an indirectly non-wholly owned subsidiary of HLD	The Group (by HREAL as agent) entered into the Tenancy Renewal Agreement with Citistore as tenant for renewing the tenancy of Shop Nos. G01, Portion of G31, G35-G50, Portion of G51, Portion of G52, G63-G74 and corridors and atrium on Ground Floor, and Shop Nos. 127-161 and corridors and toilets on Level 1, Metro Harbour Plaza ("MHP"), Tai Kok Tsui, Kowloon, Hong Kong. The Group (by HREAL as agent) also entered into an External Wall Signage Licence Agreement and an Entrance Signage Licence Agreement with Citistore as licensee for licensing of three external wall signages at MHP and one signage at the entrance of MHP, respectively. The Tenancy Renewal Agreement, the External Wall Signage Licence Agreement and the Entrance Signage Licence Agreement are for a term of three years commencing from 1 July 2014. The aggregate rentals, management fees, air-conditioning charges, promotional levy and other miscellaneous charges (exclusive of Government rates) under the Tenancy Renewal Agreement and the licence fees under the Licence Agreements, subject to annual ceiling of HK$13,200,000 for the year ended 31 December 2016. Details of the Tenancy Renewal Agreement, the External Wall Signage Licence Agreement and the Entrance Signage Licence Agreement were set out in the announcement of the Company dated 28 March 2014.

CONNECTED TRANSACTIONS (Continued)

Continuing Connected Transactions (Continued)

	Date	Connected Persons	Transactions
4.	30 October 2015	HREAL	TCS Project Management Agreement between Jet Legend Limited ("JLL"), a wholly-owned subsidiary of the Company and HREAL for the appointment of HREAL as the project manager, for the development of 208 Tung Chau Street, Sham Shui Po, Kowloon, Hong Kong (the "TCS Property") for a term of three years commencing from 2 November 2015. The aggregate remuneration for the services to be provided by HREAL shall be subject to a total annual ceiling of HK$4,100,000 for the year ended 31 December 2016. Details of the TCS Project Management Agreement were set out in the announcement of the Company dated 30 October 2015.
5.	30 October 2015	Heng Tat Construction Company Limited ("Heng Tat"), a wholly-owned subsidiary of HLD	TCS Prime Cost Contract between JLL and Heng Tat, for the appointment of Heng Tat as the main contractor for the development of the TCS Property for a term of three years commencing from 2 November 2015. The aggregate of the prime costs of all works carried out by Heng Tat itself or by any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee shall be subject to a total annual ceiling of HK$19,990,000 for the year ended 31 December 2016. Details of the TCS Prime Cost Contract were set out in the announcement of the Company dated 30 October 2015.
6.	30 October 2015	HPAL	TCS Sales Management Agreement between JLL and HPAL for the appointment of HPAL as the sales manager for the development of the TCS Property for a term of three years commencing from the date of the first initial sale of any residential units of the Proposed TCS Development. The sales fee of half of one per cent. (0.5%) of the gross proceeds of sale of the residential units and other portions of the TCS Property shall be subject to the ceiling of HK$2,000,000 for the year ended 31 December 2016. Details of the TCS Sales Management Agreement were set out in the announcement of the Company dated 30 October 2015.

CONNECTED TRANSACTIONS (Continued)

Continuing Connected Transactions (Continued)

	Date	Connected Persons	Transactions
7.	30 October 2015	HPAL and Miramar	Letter Agreement between JLL and HPAL to lease portions of Shops 501-502 and 503A-C, 5th Floor, Miramar Shopping Centre, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong (the "Premises") for use as show flats and sales office for the sale of the residential units of the TCS Property for the period from 5 November 2015 to the completion date (the earlier of 4 January 2017 and the date on which the last residential unit in the TCS Property to be sold is sold). JLL was the principal and HPAL acted as agent of JLL under the Miramar/HPAL Agreement, as disclosed in the announcement of Miramar dated 10 July 2014. The aggregate rents, fees and other charges (exclusive of Government rates) to HPAL shall be subject to a total annual ceiling of HK$3,600,000 for the period from 1 January 2016 to 4 January 2017. Details of the Letter Agreement were set out in the announcement of the Company dated 30 October 2015. The Letter Agreement expired on 4 January 2017.
	6 January 2017	HPAL and Miramar	Second Letter Agreement between JLL and HPAL to lease the Premises for the continuation of use as show flats and sales office for the sale of the residential units of the TCS Property for the period from 5 January 2017 to the completion date (the earlier of 4 May 2017 and the date on which the last residential unit in the TCS Property to be sold is sold). JLL was the principal and HPAL acted as agent of JLL under the Miramar/HPAL Agreement, as disclosed in the announcement of Miramar dated 10 July 2014. The aggregate rents, fees and other charges (exclusive of Government rates) to HPAL under the Second Letter Agreement for the period from 5 January 2017 to 4 May 2017 shall be a maximum of HK$1,700,000. Details of the Second Letter Agreement were set out in the announcement of the Company dated 6 January 2017.

CONNECTED TRANSACTIONS (Continued)

Continuing Connected Transactions (Continued)

Details of the above continuing connected transactions are set out in note 30 to the financial statements.

The Independent Non-executive Directors of the Company have reviewed and confirmed that the above continuing connected transactions for the year ended 31 December 2016 have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 20 to 24 of this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

The auditor of the Company have also confirmed to the Board in writing that the above continuing connected transactions for the year ended 31 December 2016 (i) have received the approval of the Board of Directors or Connected Transaction Committee which was set up by the Board of Directors of the Company; (ii) have been entered into in accordance with the relevant agreements governing the transactions; and (iii) have not exceeded the cap disclosed in the previous announcements.

CORPORATE GOVERNANCE

The Company is committed to maintaining the high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 25 to 37 of this Annual Report.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2016 and discussed with internal audit department and independent external auditor in respect of matters on auditing, internal control and financial reports of the Group.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the directors.

AUDITOR

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the 2017 annual general meeting.

On behalf of the Board

Dr. Lam Ko Yin, Colin	**Li Ning**
Chairman	*Director*

Hong Kong, 17 March 2017

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance. The Board of Directors (the "Board") is devoted to the ongoing enhancement of the corporate governance practices of the Company as the Board believes that good corporate governance practices are fundamental to the effective operation of a company and enhancement of shareholders' value as a whole.

In the opinion of the Board, the Company has complied with the code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2016. The Board shall review and update its corporate governance practices from time to time to ensure its continuous compliance with the Code.

BOARD OF DIRECTORS

Responsibility and delegation

The Board is primarily responsible for considering and deciding on matters covering overall Group strategies, business and investment plans, major acquisitions and disposals, annual financial budgets, approving annual reports and interim reports, announcement of annual results and interim results, dividend policy and payments, appointment of directors, oversight of management and oversee the effectiveness of the risk management and internal control systems of the Group including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions and internal audit function, and their respective training programmes and budget, approval of major capital transactions and other significant operational and financial matters.

The functions reserved to the Board are basically provided by the articles of association of the Company (the "Articles of Association") and the Board will from time to time delegate the functions to the management whenever required. The management of the Company is responsible for the day-to-day operations of the Company and implementation of strategies adopted by the Board.

The Board focuses its attention on matters affecting the Company's long term objectives and plans for achieving these objectives, the Group's overall business and commercial strategy as well as overall policies and guidelines.

The Board has established board committees with written terms of references to assist in the efficient implementation of its functions, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Specific responsibilities have been delegated to the above Board Committees.

Board meetings are held regularly four times a year and additional meetings are held as and when required to discuss significant matters or important issues. In order to meet tight time constraints and make timely decision for the Company's policies and businesses, Board approvals have also been sought by circulation of resolutions in writing from time to time in accordance with the Articles of Association. Directors' attendance by electronic means including telephone conferencing is counted as attendance at a physical board meeting. The Company Secretary shall attend all regular board meetings and additional meetings to advise on statutory compliance and corporate governance, when necessary.

During the year, the Chairman, even though he is an Executive Director, held a meeting with all Non-executive Directors (including all Independent Non-executive Directors) without the presence of another Executive Director.

All Directors have been provided, on a monthly basis, with the Group's management information updates, giving a balanced and understandable assessment of the Group's performance, position, and budget, to keep them abreast of the Group's affairs and facilitate them to discharge their duties under the relevant requirements of the Listing Rules.

BOARD COMPOSITION

The Board comprises ten Directors including two Executive Directors, four Non-executive Directors and four Independent Non-executive Directors. The names of the Directors of the Company are as follows:

Executive Directors

Dr. Lam Ko Yin, Colin *(Chairman of the Board)*
Mr. Li Ning

Non-executive Directors

Mr. Au Siu Kee, Alexander
Mr. Lau Yum Chuen, Eddie
Dr. the Hon. Lee Shau Kee
Mr. Wong Man Kong, Peter

Independent Non-executive Directors

Mr. Ho Hau Chong, Norman
Mr. Leung Hay Man
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

The biographical details of the Directors are set out in the section headed "Directors' and Senior Management's Profile" on pages 3 to 7 of this Annual Report. A list of the Directors and their role and function is available on the websites of the Company (www.hkf.com) and Hong Kong Exchanges and Clearing Limited ("HKEx") (www.hkexnews.hk) respectively.

Dr. Lee Shau Kee and Mr. Li Ning are deemed as having substantial interests in the total number of issued shares of the Company under Part XV of the Securities and Futures Ordinance ("SFO"). Dr. Lee is the father-in-law of Mr. Li Ning. Dr. Lee Shau Kee, Dr. Lam Ko Yin, Colin and Mr. Lau Yum Chuen, Eddie are executive directors of Henderson Land Development Company Limited ("HLD"). Mr. Leung Hay Man and Mr. Wu King Cheong are independent non-executive directors of HLD. HLD has discloseable interests under the provisions of the SFO in the Company.

Save as disclosed above, there is no financial, business, family or other material or relevant relationship among the Directors.

The Board adopted the Board Diversity Policy setting out the approach to achieve diversity on the Board in August 2013. The Board noted that the measurable objectives have been set for implementing the policy. In addition, the Board is satisfied that its composition is appropriate being considered the skills, experience and attributes of the Directors. The Nomination Committee of the Company will monitor the implementation of the Board Diversity Policy and review the policy as appropriate.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Nomination Committee of the Company is responsible to review the structure, size, diversity and composition of the Board, identify suitable candidates to the Board, and to make recommendations on any matters in relation to the appointment or re-appointment of members of the Board. Appointment of new Directors is reserved for the Board's approval.

The Nomination Committee ensures that the Board comprises members with mixed skills and experience with appropriate knowledge necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. The Nomination Committee takes into account that person's skills, qualifications and expected contributions to the Company before making any recommendations to the Board in relation to the appointment or re-appointment of members of the Board.

The Nomination Committee noted that the proposed re-election of Ms. Wong Yu Pok, Marina ("Ms. Wong") had been serving as an Independent Non-executive Director of the Company since May 2008 for more than nine years and shall be subject to a separate resolution to be approved by the shareholders at the annual general meeting to be held on 25 May 2017 pursuant to the Code.

Ms. Wong is also a member of Audit Committee, Remuneration Committee and Nomination Committee of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS (Continued)

Ms. Wong has met the independence guidelines set out in Rule 3.13 of the Listing Rules and has also given an annual confirmation of her independence to the Company. Ms. Wong has served in this capacity for more than nine years. Notwithstanding her long-term service, given her extensive commercial and financial experiences, the Nomination Committee and the Board are of the opinion that she continues to bring independent and objective perspectives to the Company's affairs and provides valuable insights to the management. The Nomination Committee also considered that Ms. Wong has continuously contributed to the Company and the Board with her relevant experience and knowledge throughout her years of service. The Nomination Committee and the Board, therefore, recommended her to be re-elected. Ms. Wong shall retire by rotation in accordance with the Articles of Association at the 2017 annual general meeting. Her further appointment should be subject to a separate resolution to be approved by Shareholders at the 2017 annual general meeting in accordance with the Code.

The appointment of independent non-executive directors adheres to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules.

According to the Articles of Association, a newly appointed Director shall hold office until the next following general meeting of the Company (in case of filling a casual vacancy) or until the next following annual general meeting (in case of an addition to the Board) and shall then be eligible for re-election at that general meeting.

In accordance with the Articles of Association, no Director shall hold office for a continuous period in excess of three years, or past the third annual general meeting, following the Director's appointment or re-election, whichever is the longer, without submitting for re-election at an annual general meeting of the shareholders of the Company.

In addition, at each annual general meeting one-third of the Directors for the time being or, if their number is not three or a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation at least once every three years.

The procedures for shareholders of the Company to propose a person for election as a Director are available and accessible on the website of the Company (www.hkf.com) and to the section of "Procedures for Shareholders to propose a person for election as a director" on page 37 of this Corporate Governance Report.

CHAIRMAN AND GROUP GENERAL MANAGER

The roles of the Chairman and the Group General Manager of the Company are taken by two separate individuals who are not related to each other. The separation of the roles of the Chairman and the Group General Manager enables a clear division of responsibilities between the Chairman of the Board and the Group General Manager and also provides checks and balances effect.

The role of the Chairman of the Board is taken by Dr. Lam Ko Yin, Colin while the role of the Group General Manager (whose status is equivalent to chief executive officer for the purpose of the Code but not otherwise) is taken by Ir. Dr. Ho Chi Shing, David. The key function of the Chairman is the management of the Board whereas the key function of the Group General Manager is the day-to-day management of the Company's business.

NON-EXECUTIVE DIRECTORS

The Company has complied with the requirements under Rules 3.10(1) and 3.10A of the Listing Rules of having at least three independent non-executive directors, representing one-third of the Board. One of the independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

All Non-executive Directors (including Independent Non–executive Directors) of the Company have been appointed for a specific term to 31 December 2019. They are eligible for re-appointment and subject to re-election on retirement by rotation in accordance with the Articles of Association.

CONFIRMATION OF INDEPENDENCE

The Nomination Committee and the Board noted that Mr. Ho Hau Chong, Norman is an executive director of Miramar Hotel and Investment Company, Limited ("Miramar") and a director of Wealth Team Development Limited ("Wealth Team"), which is an indirect subsidiary of HLD. Mr. Ho also has an indirect beneficial interests of 9.9% in all issued share capital of Wealth Team, but is not involved in the management and operation of Wealth Team. Miramar, Wealth Team and HLD are connected persons of the Company under the Listing Rules.

In view of the fact that Mr. Ho does not have any material interests in any principal business activity of and is not involved in any material business dealings with the Company, or any of its subsidiaries or with any connected persons of the Company, and that both the management and the operations of the Miramar Group and the Group are totally independent from each other, the Board in good faith considers that the independence of Mr. Ho as an Independent Non-executive Director of the Company is not in any way affected by his directorships in both Miramar and Wealth Team. Save as aforesaid, Mr. Ho has complied with other conditions set out in Rule 3.13 of the Listing Rules.

Mr. Leung Hay Man had certain services rendered in the past falling within the independence guideline in Rule 3.13(3) of the Listing Rules, and had/has previous/existing directorships falling within the independence guideline in Rule 3.13(7) of the Listing Rules, among the factors affecting independence.

Mr. Leung owns a company (the "Consultancy Co") which used to provide general consultancy services to the Company for certain years. The Consultancy Co has stopped providing services to the Company and no service fee has been paid by the Company to it as from June 2012. Given that the consultancy fee paid by the Company was insignificant and immaterial, the Company considers that such services rendered in the past have no bearing on his independence.

Having regard that the previous non-executive directorships of Mr. Leung involved no active management role in the Company, HLD and Henderson Investment Limited and that Mr. Leung has been re-designated as an independent non-executive director of each of HLD and Henderson Investment Limited from August 2012, the Company considers that the previous non-executive roles of Mr. Leung in the Company, HLD and Henderson Investment Limited have no bearing on his independence as an Independent Non-executive Director of the Company. Save as aforesaid, Mr. Leung has complied with other conditions set out in Rule 3.13 of the Listing Rules.

The Board has received an annual confirmation of independence from each of Mr. Ho Hau Chong, Norman, Mr. Leung Hay Man, Ms. Wong Yu Pok, Marina and Mr. Wu King Cheong, Independent Non-executive Directors of the Company, pursuant to Rule 3.13 of the Listing Rules.

All Independent Non-executive Directors also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules. The Board has not been aware of the occurrence of any events which would cause it to believe that their independence has been impaired.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

On appointment to the Board, each Director receives comprehensive induction covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior management to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, the Companies Ordinance, Chapter 622 of the Laws of Hong Kong (the "Companies Ordinance") and corporate governance practices organised by professional bodies and institutions in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, Directors are provided with written reading materials to develop and refresh their professional skills; the Group also organises and arranges seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties. During the year, the Group arranged for the Directors and senior management to attend three in-house workshops with distinguished speakers from the professional fields on topics of legal, commercial and risk management.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT (Continued)

The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

According to the records maintained by the Company, the Directors received the following training(s) in compliance with the requirement of the Code regarding the training records receiving on continuous professional development for the year ended 31 December 2016:

Board of Directors	Type of trainings
Executive Directors	
Dr. Lam Ko Yin, Colin *(Chairman of the Board)*	a, b, c
Mr. Li Ning	a, b, c
Non-executive Directors	
Mr. Au Siu Kee, Alexander	a, b, c
Mr. Lau Yum Chuen, Eddie	a, b, c
Dr. Lee Shau Kee	a, b, c
Mr. Wong Man Kong, Peter	a, b, c
Independent Non-executive Directors	
Mr. Ho Hau Chong, Norman	a, b, c
Mr. Leung Hay Man	a, b, c
Ms. Wong Yu Pok, Marina	a, b, c
Mr. Wu King Cheong	a, b, c

a: corporate governance
b: regulatory
c: accounting, finance, risk management or tax

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

BOARD COMMITTEES

The Board has established three board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee to oversee particular aspects of the Company's affairs. Each committee has been delegated with certain functions of the Board.

Audit Committee

The Audit Committee of the Company has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Audit Committee comprises four Independent Non-executive Directors, namely, Mr. Ho Hau Chong, Norman (Chairman of the Audit Committee), Mr. Leung Hay Man, Ms. Wong Yu Pok, Marina and Mr. Wu King Cheong.

The terms of reference of the Audit Committee are available on the websites of the Company (www.hkf.com) and HKEx (www. hkexnews.hk) respectively.

The major duties and responsibilities of the Audit Committee are to review of the annual and interim results and oversight of the Company's financial reporting principles and practices and discusses with the external auditor on financial reporting and compliance; to recommend the appointment and re-appointment or removal of the external auditor, to determine their independence and objectivity as well as to review the scope of audit and the reporting obligation of the external auditor. The Audit Committee oversees the effectiveness of risk management and internal control systems of the Group including the adequacy of resources, staff qualifications, experience, programmes and budget of the accounting and reporting function and internal audit function of the Group. The external auditor was invited to attend the meetings of Audit Committee to present their reports and reviews for the interim and annual results of the Group. The Audit Committee has been delegated the corporate governance functions by the Board to review and monitor the corporate compliance within the Group.

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

During the year, two audit committee meetings were held. During the meetings, the Audit Committee members reviewed the annual results and the financial statements for the year ended 31 December 2015 with recommendation to the Board for approval, the Annual Internal Audit Report, the continuous professional development training records of Directors and senior management, Continuing Connected Transactions, reviewed of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions and internal audit function, the interim results for the six months ended 30 June 2016, the Interim Internal Audit Report, to approve the remuneration and terms of engagement of the external auditor, the works of the Company's internal audit department, assessed the effectiveness of the Group's systems of risk management and internal controls.

The Audit Committee performed the corporate governance duties by reviewing the compliance with the Code and disclosure requirements as set out in this Corporate Governance Report.

As a recommended best practice under the Code, the Company has adopted a whistleblowing policy. The policy aims at encouraging and enabling employees of the Group at all levels and others to report violations or suspected violations and to raise serious concerns about possible improprieties in matters of financial reporting or other matters of the Group.

Remuneration Committee

The Remuneration Committee of the Company has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Remuneration Committee comprises four Independent Non-executive Directors, namely, Mr. Wu King Cheong (Chairman of the Remuneration Committee), Mr. Ho Hau Chong, Norman, Mr. Leung Hay Man and Ms. Wong Yu Pok, Marina and two Executive Directors namely Dr. Lam Ko Yin, Colin and Mr. Li Ning.

The terms of reference of the Remuneration Committee are available on the websites of the Company (www.hkf.com) and HKEx (www.hkexnews.hk) respectively.

The Remuneration Committee has adopted the operation model where it performs to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's emolument and on the establishment of a formal and transparent procedure for developing emolument policy.

The Remuneration Committee is responsible for reviewing the policy and structure for the emolument of all Directors and senior management of the Company, assessing performance of executive directors and establishment of a formal and transparent procedure for developing policy on such emolument.

The emolument of the Directors and senior management is determined by reference to the skills, knowledge and the tasks assigned and also to the individual performance and the overall profitability, corporate goals and objectives of the Company as a whole. In determining the emolument package, the Committee will also obtain relevant information from external source and consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, etc.

During the year, one remuneration committee meeting was held. During the meeting, the Remuneration Committee members reviewed and determined the emolument package of the staff including the senior management of the Company and made recommendations on the fees of all the Directors of the Company for the year ended 31 December 2016.

BOARD COMMITTEES (Continued)

Nomination Committee

The Nomination Committee of the Company has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Nomination Committee comprises two Executive Directors namely Dr. Lam Ko Yin, Colin (Chairman of the Nomination Committee) and Mr. Li Ning and three Independent Non–executive Directors, namely, Mr. Ho Hau Chong, Norman, Ms. Wong Yu Pok, Marina and Mr. Wu King Cheong.

The terms of reference of the Nomination Committee are available on the websites of the Company (www.hkf.com) and the HKEx (www.hkexnews.hk) respectively.

The Nomination Committee is responsible for reviewing the structure, size, diversity and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to implement the Company's corporate strategy, with due regards to the Board Diversity Policy. It also identifies individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships and to assess the independence of independent non-executive directors and make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive. The Nomination Committee shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration of his/her time devoted to the position.

During the year, there is no change in the composition of the Board and two nomination committee meetings were held. During the meeting, the Nomination Committee members reviewed the structure, size, diversity and composition (including the skills, knowledge, experience and length of service) of the Board, assessed the independence of Independent Non-executive Directors and reviewed the Independent Non-executive Directors' annual confirmations on their independence; make disclosure of its review results in the Corporate Governance Report; reviewed the time required for a Director to perform his responsibilities; made recommendations to the Board for re-election of the retiring Directors at the annual general meeting of the Company held on 23 May 2016; and made recommendation to the Board for the term of office of all Non-executive Directors (including Independent Non-executive Directors) of the Company for a specific term for three years until 31 December 2019 but is subject to retirement by rotation and re-election in accordance with the articles of association of the Company and the Code under the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

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

The Company has also adopted the written guidelines on no less exacting terms than the Model Code for relevant employees (including employees of the Company or Directors or employees of its subsidiaries who, because of such office or employment, is likely to be in possession of unpublished inside information in relation to the Company or its securities), in respect of their dealings in the securities of the Company.

POLICY AND PROCEDURES ON DISCLOSURE OF INSIDE INFORMATION

The Board has adopted the Policy and Procedures on Disclosure of Inside Information which contains the guidelines to the directors, officers and relevant employees of the Company to ensure that the inside information of the Company is to be disseminated to public in an equal and timely manner in accordance with the applicable laws and regulations. The Policy and Procedures on Disclosure of Inside Information is available on the website of the Company (www.hkf.com).

COMPANY SECRETARY

Mr. Yuen Wai Kuen, Peter, the Company Secretary of the Company, is a full time employee of the Group and has day-to-day knowledge of the Company's affairs. During the year, the Company Secretary has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. The biographical details of the Company Secretary is set out in the section headed "Directors' and Senior Management's Profile" on page 8 of this Annual Report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing the financial statements of the Group for each financial period to give a true and fair view of the financial position and financial performance of the Group. In preparing the financial statements for the year ended 31 December 2016, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable, and have prepared the consolidated financial statements on a going concern basis.

The statement of the Auditor of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 60 to 65 of this Annual Report.

Auditor's Remuneration

Apart from carrying out the annual audit, KPMG, the Auditor of the Company also carried out the review on the interim report of the Company. For the year ended 31 December 2016, the fee of the annual audit amounted to HK$1,692,000 whereas the fee for the interim review amounted to HK$335,000. Save for the interim review, KPMG did not provide any substantial non-audit services to the Company.

Risk Management and Internal Controls

The Board acknowledges its responsibility for overseeing the risk management and internal control systems of the Group and reviewing the effectiveness at least annually through Audit Committee. The systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Internal Audit Department of the Company, which reports directly to the Audit Committee and is independent of the Company's daily operations, is responsible for conducting regular audits on the areas of financial, operational, and compliance controls and risk management functions.

The Group has established an organisational structure with defined levels of responsibility and reporting procedures. The Audit Committee supports the Board in design, implementation and monitoring of the risk management and internal control systems. The operating units of the Group are responsible for the identification, assessment and mitigation of risks at business unit level and across functional areas. The Internal Risk Management Team, composed of nominated department heads and executives, facilitates the implementation of the risk management framework. The Internal Audit Department assists the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The directors through the Audit Committee are kept regularly apprised of significant risks that may impact on the Group's performance.

ACCOUNTABILITY AND AUDIT (Continued)

Risk Management and Internal Controls (Continued)

The process of risk management involves:

- understanding of organisational objectives;
- identifying the risk associated with achieving organisational objectives and assessing the likelihood and potential impact of particular risks;
- developing programmes to address the identified risks; and
- ongoing monitoring and evaluating the risks, internal control and the arrangements in place to address them.

The risk management of the Group combines a top-down strategic view with a complementary bottom-up operational process.

The Board, by the top-down approach, has a particular focus on determining the nature and extent of significant risks it is willing to take in achieving the strategic objectives of the Group. The Audit Committee supports the Board to review all significant risks in order to ensure that the activities of the business remain within agreed risk appetite tolerances.

The operating units of the Group are responsible for identifying their own risks and designing, implementing and monitoring the relevant risk management and internal control systems. The setting of business objectives and annual budgeting is one of their key control activities, which shall be refined to take into consideration risk factors. The operating units of the Group consult the Group General Manager on setting the business objectives which are pursuant to the Board's strategic objectives and are consistent with its risk appetite. The process involves the maintenance of risk assessment reports setting out particulars of material risks together with the control strategies as reported by the operating units of the Group. This bottom-up approach is embedded in the operations of the Group and complements the top-down strategic view by identifying the principal risks and ensuring the significant risks to be considered by the Board in determining the risk appetite.

The Internal Audit Department collects the risk assessment reports from the operating units of the Group and then compiles a risk register for review at the meeting of Internal Risk Management Team which is held at least 4 times a year (2 meetings are held before the holding of the Board Meeting to review the interim and annual results of the Group). The Internal Risk Management Team coordinates risk management activities and assesses the effectiveness of the related system of internal control in managing the significant risks, having regard, in particular, to any significant failings or weakness in internal control that have been reported.

The Internal Audit Department adopted a risk-based approach which included all significant risks in each year's annual audit plan and performed audits to evaluate the proper functioning of the risk management and internal control systems for the financial year ended 31 December 2016. It is intended to carry out this evaluation process on an ongoing basis. Key audit findings and recommendations have been shared with the Internal Risk Management Team. The Audit Committee, after reviewing and considering the risk management findings submitted by the Internal Audit Department, then reported to the Board of the Company and confirmed to the Board that the risk management and internal control systems are effective and adequate.

ACCOUNTABILITY AND AUDIT (Continued)

Risk Management and Internal Controls (Continued)

The diagram below summarizes the complementary top-down and bottom-up aspects of the integrated approach of the Group to risk management.

"Top-down" approach
Oversight, identification, assessment and mitigation of risk at corporate level

The Board

- Has overall responsibility for the Group's risk management and internal control systems
- Sets strategic objectives
- Reviews the effectiveness of the Group's risk management and internal control systems
- Monitors the nature and extent of risk exposure for the Group's significant risks
- Provides direction on the importance of risk management and risk management culture

Internal Risk Management Team	Audit Committee	Internal Audit
• Supports the Audit Committee in designing, implementing, and monitoring the Group's risk management and internal control systems • Supports the Audit Committee in assessing the Group's risks and mitigating measures Company-wide	• Supports the Board in monitoring risk exposure, design and operating effectiveness of the underlying risk management and internal control systems	• Supports the Audit Committee in reviewing the effectiveness of the Group's risk management and internal control systems • Considers risk assessment results, especially for all significant risks in annual audit planning • Designs audit program with reference to the risk assessment results • Report key audit findings and recommendations to the Audit Committee and Internal Risk Management Team

"Bottom-up" approach
Identification, assessment and mitigation of risk at business unit level and across functional areas

Operational Level

- Sets business objectives
- Risk identification, assessment and mitigation performed across the business
- Risk management process and internal controls measures practised across business operations and functional areas.

Certain significant risks such as business risk, financial risk, regulatory and compliance risk and operational risk have been identified during the year through the process of risk identification and assessment. Relevant control strategies and mitigation on significant risks have been reported to the Audit Committee. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the financial position or results of operations of the Group and considered the risk management and internal control systems to be generally effective and adequate.

The Audit Committee has established and oversees a whistleblowing policy and set comprehensive procedures whereby employees can report any actual or suspected occurrence of improper conduct involving the Company, and for matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Audit Committee has designated the Internal Audit Manager to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations arising from any investigations to them for consideration by the Audit Committee.

ACCOUNTABILITY AND AUDIT (Continued)

Risk Management and Internal Controls (Continued)

Inside Information

With regard to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is required to disclose inside information as soon as reasonably practicable in accordance with the Securities and Futures Ordinance and the Listing Rules.
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission.
- has included in its Corporate Code of Conduct a strict prohibition on the unauthorized use of confidential or inside information.
- ensures, through its own internal reporting processes and the consideration of their outcome by senior management, the appropriate handling and dissemination of inside information.

ATTENDANCE RECORD OF DIRECTORS AND BOARD COMMITTEE MEMBERS

Details of the attendance of each director at the Board Meetings ("BM"), Audit Committee Meetings ("ACM"), Remuneration Committee Meeting ("RCM") and Nomination Committee Meetings ("NCM") during the year ended 31 December 2016 and Annual General Meeting held on 23 May 2016 ("AGM") are set out in the following table:

	Number of Meetings attended/held				
Board of Directors	**BM**	**ACM**	**RCM**	**NCM**	**AGM**
Executive Directors					
Dr. Lam Ko Yin, Colin *(Note 1)*	4/4	N/A	1/1	2/2	1/1
Mr. Li Ning *(Note 2)*	4/4	N/A	1/1	2/2	1/1
Non-executive Directors					
Mr. Au Siu Kee, Alexander	4/4	N/A	N/A	N/A	1/1
Mr. Lau Yum Chuen, Eddie	4/4	N/A	N/A	N/A	0/1
Dr. Lee Shau Kee	0/4	N/A	N/A	N/A	0/1
Mr. Wong Man Kong, Peter	3/4	N/A	N/A	N/A	0/1
Independent Non-executive Directors					
Mr. Ho Hau Chong, Norman *(Note 3)*	4/4	2/2	1/1	2/2	1/1
Mr. Leung Hay Man *(Note 4)*	4/4	2/2	1/1	N/A	1/1
Ms. Wong Yu Pok, Marina *(Note 5)*	4/4	1/2	1/1	2/2	0/1
Mr. Wu King Cheong *(Note 6)*	4/4	2/2	1/1	2/2	1/1

Notes:

1. *Chairman of the Board, Member of the Remuneration Committee and Chairman of the Nomination Committee*
2. *Member of the Remuneration Committee and the Nomination Committee*
3. *Chairman of the Audit Committee, Member of the Remuneration Committee and the Nomination Committee*
4. *Member of the Audit Committee and the Remuneration Committee*
5. *Member of the Audit Committee, the Remuneration Committee and the Nomination Committee*
6. *Member of the Audit Committee, Chairman of the Remuneration Committee and Member of the Nomination Committee*

COMMUNICATION WITH SHAREHOLDERS

The Company continues to pursue investor relations and communications with shareholders.

The Board has adopted a shareholders communication policy to set out the Company's procedures in providing the shareholders with prompt and equal access to information about the Company, in order to enable the shareholders to access the Company's overall performance, exercise their rights in an informed manner and engage actively with the Company.

The Company has established an effective communication system. The Company also maintains a website (www.hkf.com) through which the Company's updated financial information, announcements, circulars, notices of meetings, press releases and contact details can be accessed by the shareholders and investors. The Board believes that the Company's website provides an alternative means for the investing public to obtain information of the Company in a convenient and timely manner.

The annual general meeting also provides an important opportunity for constructive communication between the Board and the shareholders. The Chairman and the chairmen of the audit committee, remuneration committee and nomination committee as well as the Company's external auditor maintained an on-going dialogue with the shareholders and answered questions raised by the shareholders throughout the annual general meeting.

SHAREHOLDERS' RIGHTS

Set out below are procedures by which shareholders may: (1) request to call a general meeting; (2) put forward enquiries to the Board; and (3) request to circulate a resolution for an annual general meeting. These procedures are generally governed by the provisions of the Articles of Association and applicable laws, rules and regulations, which prevail over what is stated in this section in case of inconsistencies.

1. Procedures by which shareholders may request to call a general meeting

Pursuant to the Articles of Association and Section 566 of the Companies Ordinance, shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings of the Company can make a request to call a general meeting.

The request: (a) must state the general nature of the business to be dealt with at the general meeting; (b) may include the text of a resolution that may properly be moved and is intended to be moved at the general meeting; (c) may consist of several documents in like form; (d) may be sent to the Company Secretary in hard copy form to the registered office of the Company at 98 Tam Kon Shan Road, TYTL 102, Ngau Kok Wan, North Tsing Yi, New Territories, Hong Kong or in electronic form via e-mail at hkferry@hkf.com; and (e) must be authenticated by the shareholders making it.

Pursuant to Section 567 of the Companies Ordinance, the Directors must call a general meeting within 21 days after the date on which it becomes subject to the requirement and a general meeting so called must be held on a date not more than 28 days after the date of the notice convening a general meeting. If the Directors do not do so, the shareholders, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting pursuant to Section 568 of the Companies Ordinance, but the meeting must be called for a date not more than 3 months after the date on which the Directors become subject to the requirement to call a general meeting. Any reasonable expenses incurred by the shareholders by reason of the Board's failure to duly call the meeting shall be reimbursed to the shareholders by the Company.

SHAREHOLDERS' RIGHTS (Continued)

2. Procedures for putting forward enquiries to the Board

Shareholders may put forward enquiries to the Board through the Company Secretary who will direct the enquiries to the Board for handling. The contact details of the Company Secretary are as follows:

The Company Secretary
Hong Kong Ferry (Holdings) Company Limited
98 Tam Kon Shan Road
TYTL 102
Ngau Kok Wan
North Tsing Yi
New Territories
Hong Kong

E-Mail	:	hkferry@hkf.com
Telephone	:	(852) 2394 4294
Facsimile	:	(852) 2786 9001

3. Procedures to circulate a resolution for an annual general meeting

Pursuant to Section 615 of the Companies Ordinance, shareholders can make a request to circulate a proposed resolution that may properly be moved and is intended to be moved at an annual general meeting, accompanied by a statement of not more than 1,000 words with respect to the matter mentioned in the proposed resolution. The request must be made by: (i) shareholders representing at least 2.5% of the total voting rights of all the shareholders who have a relevant right to vote on the resolution at the annual general meeting to which the request relates; or (ii) at least 50 shareholders who have a relevant right to vote on the resolution at the annual general meeting to which the request relates.

The request: (a) may be sent to the Company Secretary in hard copy form to the registered office of the Company at 98 Tam Kon Shan Road, TYTL 102, Ngau Kok Wan, North Tsing Yi, New Territories, Hong Kong or in electronic form via e-mail at hkferry@hkf.com; (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the shareholders making it; and (d) must be received by the Company not later than 6 weeks before the annual general meeting to which the request relates; or if later, not later than the time at which notice is given of that annual general meeting.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

According to the Articles of Association, a notice signed by a shareholder of his/her intention to propose a person for election and also a notice signed by the person (the "Candidate") to be proposed of his/her willingness to be elected shall be lodged at the registered office of the Company no earlier than the day after the despatch of the notice of the general meeting appointed for such election and no later than 7 days prior to the date of such general meeting.

The Candidate is required to provide his/her biographical details set out under Rule 13.51(2) of the Listing Rules.

The Nomination Committee, where applicable, will review and make recommendations to the Board on the selection of any individuals nominated for directorships in accordance with the terms of reference of the Nomination Committee.

The Company will, where appropriate, issue a supplementary circular which shall include the name of the Candidate together with his/her biographical details set out in Rule 13.51(2) of the Listing Rules, to the shareholders for them to make decision on their election at a general meeting.

INVESTOR RELATIONS

During the year ended 31 December 2016, there has not been any change in the Company's constitutional documents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MESSAGE FROM THE CHAIRMAN

I am pleased to present this Environmental, Social and Governance ("ESG") Report for Hong Kong Ferry (Holdings) Company Limited (the "Company") and its subsidiaries ("Hong Kong Ferry Group"). It highlights the progress we have made in our sustainability in 2016 and has been prepared in accordance with the requirements of the ESG Reporting Guide, Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited issued by Hong Kong Exchanges and Clearing Limited ("HKEx") in 2016.

With a long-standing history and presence in Hong Kong, the Company has a solid foundation in property development and investment, and ferry and shipyard operations.

Our objective is to be a well-managed listed company through continuous innovation and enrichment. The vision to provide high-quality products and services has been brought about by our commitment to our mission to improve management and operating systems, encourage innovative ideas, and enhance the service quality of our employees. We recognise our dedicated staff to be a valuable asset, so we constantly strive to invest in our people.

We also recognise that our economic contributions must go hand-in-hand with positive contributions to our society. Over the past few years, the Company has been taking a proactive stance in improving our environmental and social performance. All-encompassing policies have allowed us to decrease the overall environmental impacts of our operations.

Environmental and social governance are becoming more important to our investors. Looking ahead, we will continue to engage our stakeholders in these matters to seize business opportunities and mitigate against future challenges. As you review the report, I hope it is of interest as we continue to work together for a sustainable future.

Dr. Lam Ko Yin, Colin
Chairman

1. ABOUT THIS ESG REPORT

a. Reporting Scope and Standard

This ESG Report covers the period from 1 January 2016 to 31 December 2016 (the "reporting year"), and follows the requirements detailed in the ESG Reporting Guide issued by HKEx. The operations in scope include property development and investment, ferry and shipyard operations, and related services. Our travel operation was sold in 2016, therefore, HYFCO Travel Agency Limited is no longer reported in this ESG Report. To capture an accurate representation of the operations of Hong Kong Ferry Group, the following companies are included in this ESG Report.

Business Units	Name of the Companies
Principal Office	Hong Kong Ferry (Holdings) Company Limited
Property Development and Investment	Jet Legend Limited Well Dynamic Limited World Light Limited Lenfield Limited HKF Property Investment Limited
Shipyard Operation	The Hong Kong Shipyard Limited
Dangerous Goods Vehicular Ferry Services	The Hongkong and Yaumati Ferry Company Limited
Harbour Cruise - Bauhinia	Galaxy Hotel Management Company Limited

To facilitate greater navigability and transparency, a detailed HKEx ESG content index is included at the end of this report.

b. Stakeholder Engagement

The Company developed this ESG Report on the basis of feedback from our various stakeholders. This year, we invited several external stakeholders, including suppliers and NGOs, to respond to our online survey. Generally, respondents were satisfied with the content of the 2015 report and expressed their interest in Hong Kong Ferry Group's future ESG initiatives.

1. ABOUT THIS ESG REPORT (Continued)

c. Materiality Assessment

While the ESG Reporting Guide articulates a wide spectrum of aspects, they are not all relevant to the operations of the Hong Kong Ferry Group. The following three-step materiality assessment was conducted by an independent consultant to determine the material sustainability issues for disclosure.

Step 1: Identification

- The preliminary step was to identify and review the sustainability disclosures of Hong Kong Ferry Group's local peers. This peer benchmarking exercise gave an indication of the most appropriate ESG issues for the Hong Kong Ferry Group.
- Employees and other external stakeholders were also invited to complete an online survey to rank the importance of ESG issues faced by Hong Kong Ferry Group. As employees possess in-depth operational knowledge, highly ranked ESG issues are likely to be considered material.

Step 2: Prioritisation

- Results from the peer benchmarking exercise and stakeholder online survey were consolidated to identify a list of material ESG issues for Hong Kong Ferry Group.

Step 3: Validation of the Material Issues

- Hong Kong Ferry's senior management convened a meeting with the independent consultant to confirm a finalised list of material Key Performance Indicators ("KPIs") for disclosure.

2. AWARDS, CERTIFICATES AND MEMBERSHIPS IN 2016

Awards/Certificates	Awarding Bodies/Issuing Organisations
Certificate Commendation 2013-2016	Carbon Audit Pilot Fund under the Carbon Smart
Certificate of Registration of Electrical Contractor	Electrical and Mechanical Services
EcoPartner & EcoPioneer	Bank of China (Hong Kong) Limited and FHKI
Environmental Excellence 2011-2016	Environmental Campaign Committee
Family-Friendly Employers Award Certificate 2015/16	Home Affairs Bureau, The Government of HKSAR
Friends of EcoPark Certificate of Appreciation 2015-2016	Environment Bureau, The Government of The HKSAR
Good MPF Employer 2015-16	The Mandatory Provident Fund Schemes Authority
HR Asia Best Companies to Work for in Asia 2016	HR Asia Magazine
ISO 9001:2008 Quality Management System Certification for Harbour Cruise – Bauhinia	Intertek
ISO 9001:2008 Quality Management System Certification for The Hongkong and Yaumati Ferry Company Limited	Lloyd's Register Quality Assurance Limited
ISO 9001:2008 Quality Management System Certification for The Hong Kong Shipyard Limited	Lloyd's Register Quality Assurance, Inc. and Lloyd's Register Quality Assurance Limited
Logo of "Caring Company 10 Years plus"	The Hong Kong Council of Social Service
Logo of "Happy Company 2016"	The Promoting Happiness Index Foundation and Hong Kong Productivity Council ("HKPC")
Logo of Heart to Heart Company 2005-2016	The Hong Kong Federation of Youth Groups
"Manpower Developer 1st" Award 2010-18	The Employees Retraining Board
Outstanding Caring Award (Enterprise Group) under the "Corporate Social Responsibility (CSR) Recognition Scheme – Industry Cares 2016"	The Federation of Hong Kong Industries ("FHKI")
Partner Employer Award 2016/17	The Hong Kong General Chamber of Small and Medium Business
Logo of "The 7th Hong Kong Outstanding Corporate Citizenship"	HKPC and Committee on the Promotion of Civic Education
Membership/Charter	**Organisations**
Green Cross Group Member	Occupational Safety & Health Council
Workplace Hygiene Charter 2015-2016	Occupational Safety & Health Council and Labour Department

2. AWARDS, CERTIFICATES AND MEMBERSHIPS IN 2016 (Continued)

3. ENVIRONMENTAL STEWARDSHIP

The Hong Kong Ferry Group pursues environmental stewardship with a great sense of responsibility and drive. We systematically manage our energy consumption and efficiency, GHG emissions, waste management and water consumption. Various initiatives and systems allowed us to achieve greater resource efficiency and to minimise our environmental footprint.

a. Energy Efficiency and Emissions

The Hong Kong Ferry Group made great strides in improving our energy efficiency this reporting year by implementing the plan to replace all traditional T8 fluorescent tubes with more energy-efficient LED tubes throughout our principal office and subsidiaries' offices. At The Hongkong and Yaumati Ferry Company Limited, our energy consumption during night shifts was further reduced by replacing traditional halogen lamps with LED High Bay lighting. This reduced light dissipation in our large industrial spaces with high ceilings. The Hong Kong Shipyard Limited and Harbour Cruise – Bauhinia also contributed to this effort through the installation of motion sensors and timer switches, respectively.

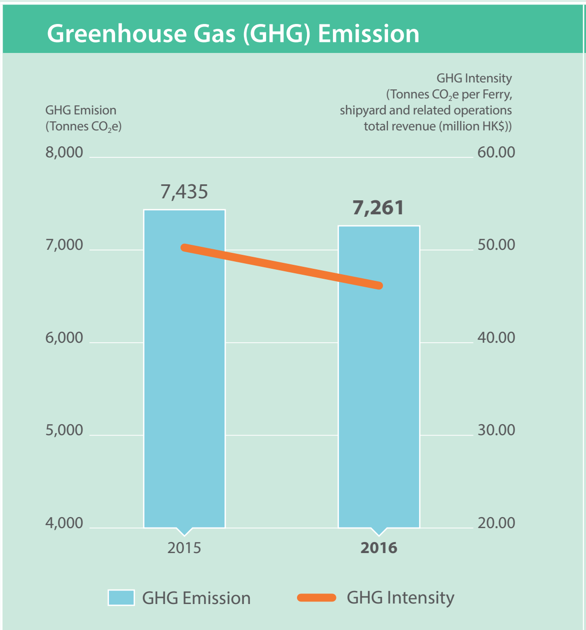
In order to gauge the positive outcomes of the energy retrofits, specialized consultants were commissioned to monitor actual consumption reduction by installing metering at high energy-consuming facilities. The quantification of our energy efficiency initiatives is crucial to identifying further energy-saving opportunities. Our Year 2016 Energy Baseline has been established, which will inform our target-setting for future years.

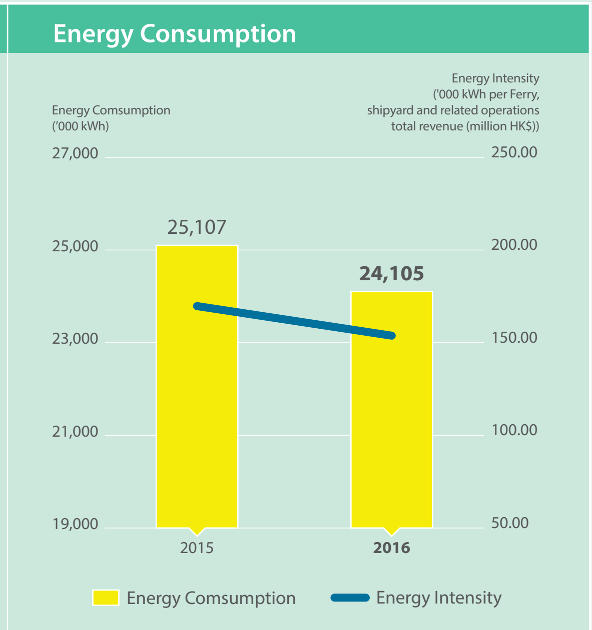
Our environmental stewardship values also extend to the operations of our Property Development business division. Taking energy and carbon reduction initiatives into consideration from the planning phase is indispensable to conducting our projects in a sustainable way. For example, energy-simulation modelling studies are conducted to determine the most optimal integration of energy-saving approaches. We also closely adhere to the energy efficiency requirements of the Performance-based Building Energy Code of the Hong Kong Government's Electrical and Mechanical Services Department.

Since 2011, the Energy and Carbon Management Programme has been in place at our more fuel-intensive subsidiaries: The Hong Kong Shipyard Limited and The Hongkong and Yaumati Ferry Company Limited. Results of the carbon audits are disclosed on the Environmental Protection Department's online Carbon Footprint Repository for Listed Companies in Hong Kong for 2014. External consultants have conducted continuous gap analyses for the two subsidiaries, and advise the management of practical measures to drive steady emissions reductions. For example, The Hong Kong Shipyard Limited purchased a set of air compressors with frequency inverters in July 2016, saving a total of 42,900kWh which is equivalent to HK$34,320 in tangible overhead cost-savings.

3. ENVIRONMENTAL STEWARDSHIP (Continued)

a. Energy Efficiency and Emissions (Continued)





To further enhance energy efficiency and reduce energy consumption, The Hong Kong Shipyard Limited also replaced one full set of variable speed drive air compressor generators with the application of frequency Inverter methodology.

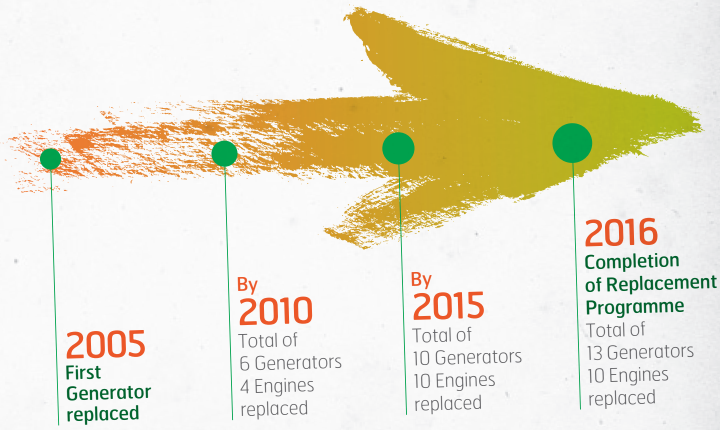
3. ENVIRONMENTAL STEWARDSHIP (Continued)

a. Energy Efficiency and Emissions (Continued)

Case Study — Completion of Engine and Generator Replacement Programme

Almost all sea freighters are powered by combustion engines that emit sulphur oxides, oxides of nitrogen, particulate matter and carbon dioxide, which affect the air quality of the harbour.

In 2005, The Hongkong and Yaumati Ferry Company Limited first invested in a set of eco-friendly generators for the vessel "Man Lok". By 2008, the Company, wishing to strengthen their environmental stewardship, decided to initiate a replacement program for all generators and engines on board their five vessels.



Besides the need for costly investments, each vessel was subject to a period of dry docking to complete the replacement. In May 2016, Man On, the last vessel in the fleet, was fitted with new environmentally-friendly generators, concluding this 11-year replacement programme.

b. Water Preservation

This reporting year we initiated various water-saving measures in our subsidiaries.

The Hong Kong Shipyard Limited's water consumption was considerably lessened by improving our cleaning practices. Each day of cleaning work, our foremen provided proper training to the workmen to adjust and optimise their waterjet applications.

In addition, renovation works to all restrooms in the Principal Office have been completed to enhance water efficiency. With the application of automatic water tap sensors, we are reaching our common goal of reducing domestic fresh water consumption. Harbour Cruise – Bauhinia also managed to reduce their water consumption by 15% simply by installing automated water faucets in the restrooms.

3. ENVIRONMENTAL STEWARDSHIP (Continued)

b. Water Preservation (Continued)

Case Study — Rainwater Harvesters

Given Hong Kong's abundant rainfall, on-site rainwater catchment systems have been of particular interest as a water conservation measure in recent years.

To contribute to water conservation, The Hong Kong Shipyard Limited installed an on-site 1 cubic metre-sized rainwater harvesting tank this year. Instead of a metallic tank that can be easily corroded under harsh outdoor conditions, a more durable plastic tank is installed to enhance system lifespan. The installation has the capacity to collect a total of 30 cubic metres of rainwater annually.

The collected rainwater is used for company car washing, floor cleaning and green area irrigation. "Technical Specifications on Grey Water Reuse and Rainwater Harvesting" published by the Water Supplies Department have provided clear guidance in ensuring the effluent is fit for purpose and poses no undue health risks.

Besides contributing to our environmental stewardship, the maintenance costs of the fresh water supply system have been reduced as well.

c. Environmental Mitigation

Each of our subsidiaries have developed individual initiatives to mitigate their environmental impacts, according to the nature of their operations. Waste management has been a key concern applicable to all of our subsidiaries.

Shipyards generate different types of waste such as oil, scrap metals, and sacrificial anodes from our vessels. At The Hong Kong Shipyard Limited, the used oil is converted into high-quality green lubricants increasing its monetary value, while the scrap metals and used sacrificial anodes do not require significant processing. Designated contractors have been appointed to classify the different types of metals by weight and the sacrificial anodes by size and number, and their sales can contribute to revenue gains.

On-board the floating restaurants of Harbour Cruise – Bauhinia, waste water management has become a significant channel for our subsidiary to minimise pollution. Our subsidiary handles the sewage generated on-board under a strict management system. An annual total of 8,950 metric tonnes of wastewater is securely discharged into an onshore sewage system at the ferry pier without leaching into the sea.

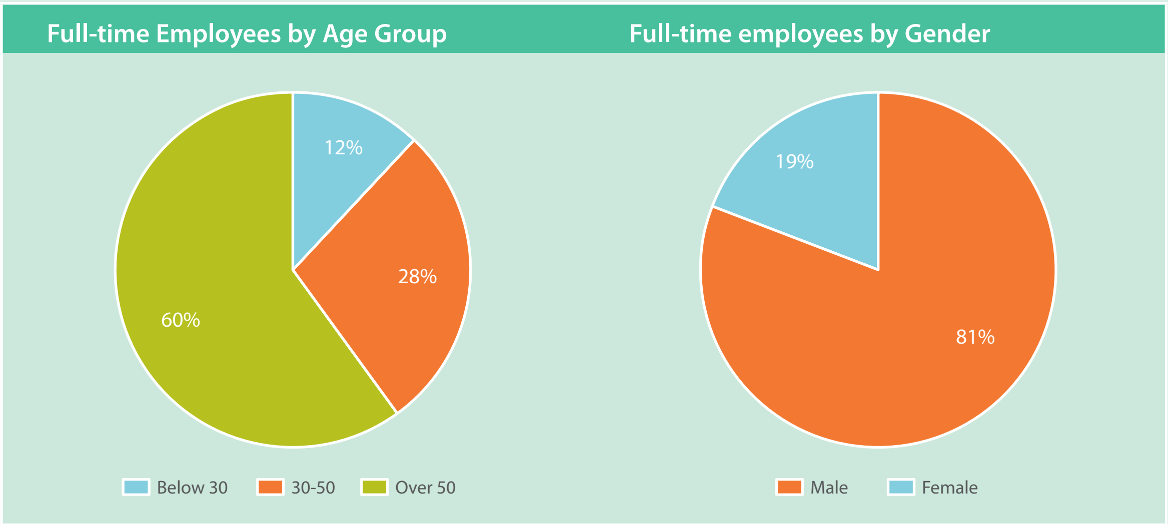
4. HUMAN CAPITAL – OUR GREATEST ASSET

a. Working Conditions

The Hong Kong Ferry Group prioritises the welfare and benefits of our employees, who have been the cornerstone of the Company's success. In addition to competitive compensation packages, our staff are entitled to a broad range of fringe benefits that include maternity and paternity leave, as well as medical insurance coverage covering both themselves and their family. In all of our operations throughout the reporting year, no cases of non-compliance with any labour regulations were reported.

Our employees work together in a harmonious environment to achieve maximal productivity. A united atmosphere, free from discrimination, promotes friendly interactions between our staff. The merits of each employee is considered in a fair annual appraisal exercise to identify opportunities for career progression. As an equal opportunity employer, the Company is committed to a fair recruitment process for talent acquisition. Clear policies have been implemented so that all qualified candidates are given equal consideration regardless of their age, gender, race, and other characteristics.

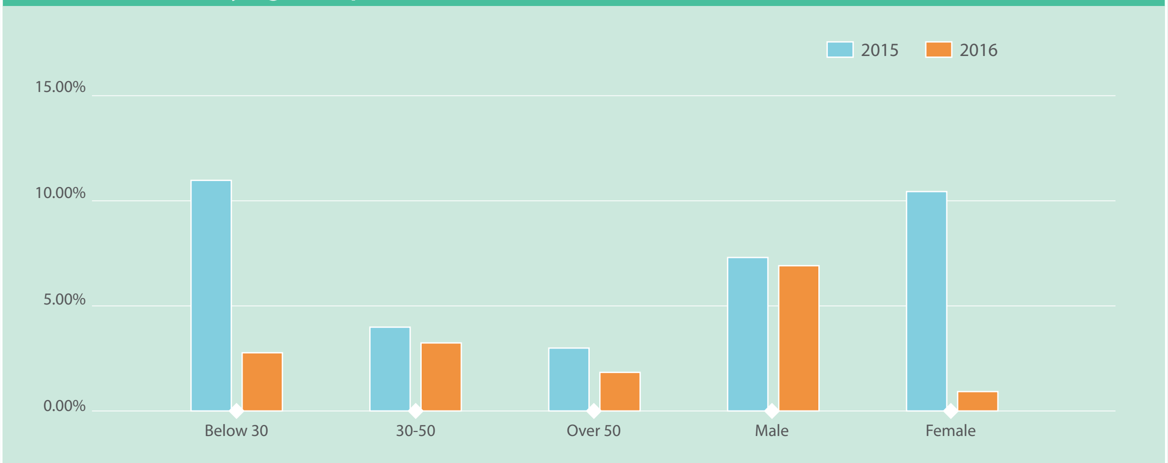
We believe a healthy work-life balance is necessary to boost staff morale. Our office-based staff enjoy a 5-day work week, while our on-site workforce have a flexi-time system. Opportunities for social interaction and team building are made through company-wide recreational activities, such as staff outings and birthday parties. Inter-departmental exchange is also encouraged by providing a relaxing staff leisure corner.



4. HUMAN CAPITAL – OUR GREATEST ASSET (Continued)

a. Working Conditions (Continued)

Turnover Rate by Age Goup and Gender



Examples of staff activities

Spring Festival Gala

Health Seminar

Leisure Trip

Ethic Management Seminar

4. HUMAN CAPITAL – OUR GREATEST ASSET (Continued)

b. Staff Training and Development

The continuous development of all our staff is in the best interest of the Hong Kong Ferry Group. During the reporting period, our employees benefited from a total of approximately 4,087 training hours.

The Group performs an annual gap analysis to determine the training needs of our different operations. Customised internal training courses for our senior management underscore strategic management and corporate governance. Our technical managers and engineers undertake specialised training in their respective departments. As we also recognise the benefits of external accredited courses, a separate budget is allocated to provide sponsorship for interested staff.

c. Occupational Health and Safety

Workplace health and safety is a priority for all operations of the Hong Kong Ferry Group. The Group's Safety Committee governs the management of all health and safety risks at the Shipyard and other business units. There have been no non-compliance issues with relevant standards and regulations for the reporting period.

A clear set of safety protocols is laid out to safeguard employees from occupational hazards. Safety messages are communicated through internal memos, guidelines and training. Prior to high-risk activities, such as working at heights or confined spaces, employees are thoroughly briefed on the use of personal protection equipment. Routine safety inspections not only allow for immediate rectification of faulty measures, but also help to improve protocols based on the feedback received.

The Hong Kong Ferry Group recognises that the effectiveness of our safety policies hinges upon the mind-set of our staff. Thus, we promote a cohesive culture in which the workforce is alert for the safety of one another. This is encouraged by morning group exercise sessions, which nurtures rapport and like-mindedness. Regular seminars advocating safe and healthy lifestyles also allow our staff to come together.

To take further steps into nurturing the safest work culture, employees of the Harbour Cruise – Bauhinia and Dangerous Goods Vehicular Ferry Services are required to adhere to stringent protocols. Staff of the Harbour Cruise – Bauhinia are also required to attend courses on occupational safety.

d. Anti-Corruption

The highest level of ethical business standards steer our operations. The Hong Kong Ferry Group prohibits corruption or malpractice of any form in bribery, money laundering, extortion and fraud. An explicit set of professional guidelines is outlined in the Group's Code of Conduct, which requires due diligence from all employees. During the reporting period, there were no confirmed cases of non-compliance with the anti-corruption regulations of Hong Kong.

Our staff remains fully apprised of relevant anti-corruption laws through seminars conducted by the Independent Commission Against Corruption ("ICAC") every two years. Under the Company's whistle-blowing policy, employees are given full confidentiality to report any concern to the Internal Audit Manager.

5. COMMUNITY CONTRIBUTION

Our community programmes are an essential part of our corporate responsibility strategy. Hong Kong Ferry Group has supported the rounded development of diverse community groups through financial and non-financial contributions, and direct participation in initiatives.

In 2016, we continued to collaborate with Wofoo Social Enterprises to organise the "Loving Hong Kong Loving Home" cruise party series and entertained over 1,000 individuals from underprivileged families. Held on-board of the Harbour Cruise – Bauhinia, families enjoyed performances and a complimentary buffet. We also supported various community events and visits organized by different organizations like The Hong Kong Federation of Youth Groups, Pok Oi Hospital Group, The China Candlelight Fund, Centum Charitas Foundation, and Hong Kong Federation of Handicapped Youth.

26 Jun: "Loving Hong Kong Loving Home" Party Series with Wofoo Social Enterprises

13 Aug: Hong Kong Ferry volunteers helped at Food Expo 2016

16 Aug: Mainland University students from China Candlelight Fund enjoyed a Harbour Cruise ride for free

5. COMMUNITY CONTRIBUTION (Continued)

12 Sep: Students from Beijing Jiaotong University visited Hong Kong Shipyard

24 Sep: Hong Kong Ferry volunteers delivered rice to senior citizens in a community event

15 Oct: Hong Kong Ferry staff took part in the 2016 Joy Charity Walk

12 Nov: Students from Centum Charities Foundation visited Hong Kong Shipyard

"It's most enjoyable to me and my family for being part of HKF Corporate Volunteer Team and joining different CSR events!"

Eficle Wong, Internal Audit Department

Established in 2008, the Corporate Volunteer Team has formed partnerships with various charity organizations in delivering community services. Team members and their families are welcomed to join different events with a focus on elderly and family services.

This year, the Hong Kong Ferry Group was engaged in over 500 hours of volunteer services.

6. VALUE CHAIN MANAGEMENT

a. Supply Chain Management

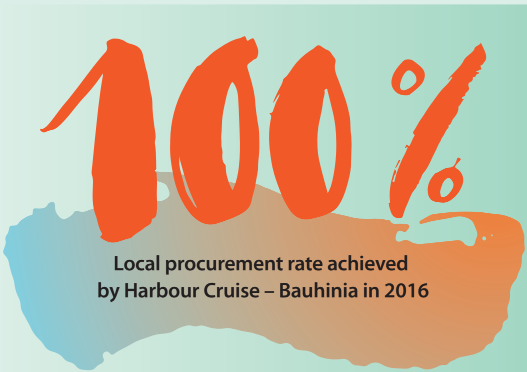
With our property development, ferry and shipyard operations, the Company's supply chain spans a variety of industry sectors. To manage environmental and social risks in our supply chain, we engage and collaborate with our suppliers and contractors.

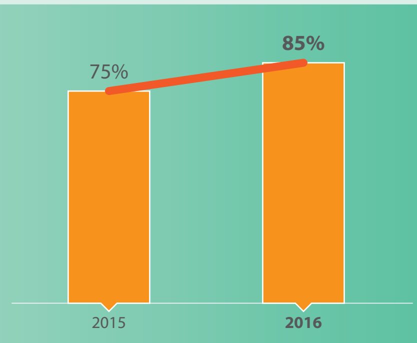
At the Hong Kong Ferry Group, our engagement with suppliers and contractors conforms to the highest standards of ethical business practice. The Group's Code of Conduct clearly underscores the value of fair and open competition during all procurement and tendering procedures. The contracting of services and the purchase of goods is based solely upon price, quality and need. The Hong Kong Ferry Group has adopted management controls to detect and prevent bribery and other forms of malpractice, to ensure the impartial selection of capable and responsible suppliers and contractors.

The Hong Kong Ferry Group also strives to develop long-term relationships with our key suppliers. A database of approved suppliers and vendors is updated on an annual or quarterly basis. The suppliers and vendors are reviewed through a Supplier Evaluation Report and a Supplier Performance Review. Comprehensive inspections are carried out on suppliers prone to substandard performance, such as late deliveries, and we develop corrective action plans with our suppliers to address issues promptly.

Suppliers and contractors are required to adhere to all Hong Kong environmental and safety related regulations. Stringent measures are carried out to ensure compliance, such as monthly joint safety inspections with in-house contractors, as well as tender specifications to implement a construction waste management plan during works.

In terms of mitigating environmental impacts, the Hong Kong Ferry Group prioritises local procurement. Local suppliers using locally-sourced materials carry a lower carbon footprint. Harbour Cruise – Bauhinia has achieved a 100% local procurement rate, while the overall local procurement rate is 85% for the Hong Kong Ferry Group – a 10% increase from the previous reporting period.





Overall local procurement rate of the group

6. VALUE CHAIN MANAGEMENT (Continued)

b. Responsible Services

To deliver superior value to our customers, the management of the quality and reliability of our services is crucial. Customer feedback is actively sought and rigorous quality assurance systems are implemented to drive continuous performance.

Customer satisfaction surveys are carried out periodically across our business units. Thorough quantitative and qualitative analysis is carried out to devise strategies for improvement. During the reporting period, there were no product and service related complaints received by Harbour Cruise – Bauhinia, the Shipyard Operation and the Dangerous Goods Vehicular Ferry Services.

The frequency and overall results of customer satisfaction surveys

Business Units	Harbour Cruise – Bauhinia	Shipyard Operation	Dangerous Goods Vehicular Ferry Services
Frequency	Weekly	– For contract basis: Yearly – For project basis: Each project	Twice a year
Satisfaction rate	95%	Over 96%	100%

Our high customer satisfaction rates can be attributed to our effective internal auditing and quality assurance process. The shipyard operations implement the ISO 9001:2008 standard, which governs our sound quality management system. A Service Evaluation Record seeks detailed client feedback, and is reviewed quarterly for non-contractual customers and annually for contractual customers.

The Hong Kong Ferry Group also engages in delivering responsible services through the observation of intellectual property rights. At Harbour Cruise – Bauhinia, we respect music copyright laws and have paid music royalties under a Copyright Music Performance Licence Contract. We have also registered Harbour Cruise – Bauhinia as a trademark with the Trade Marks Registry, Intellectual Property Department.

At the Hong Kong Ferry Group, consumer data privacy is treated with the utmost care. Internally, policies assure database privileges and roles are set to each staff-user individually to prevent confidential data exposure. Digital locks protect database servers to prevent unauthorized access, while data masking technology secures some critical databases. With regard to external threats, Harbour Cruise – Bauhinia employs SSL-encrypted connections to secure our web-based online booking system.

The Hong Kong Ferry Group has established strict protocols in handling all databases. For example, abnormal activity in all web servers can be detected through log files of all access activities, and remote access is strictly monitored and VPN protected. Backup tapes are password-protected, and log books account for their status. Fundamental security measures, such as anti-virus software and firewall systems, have also been installed.

7. PERFORMANCE DATA SUMMARY

HKEx KPI		Unit	FY2016	FY2015 (Note 1)
A. Environmental				
A1.1	The types of emissions and respective emissions data (Note 2)			
	– NO_x	Tonnes	1.36	/
A1.2	Greenhouse gas emissions in total and intensity (Note 3)			
	– in total	Tonnes of CO_2e	7,261.32	7,435.38 (restated)
	– by intensity	Tonnes of CO_2e per Ferry, shipyard and related operations total revenue (HK$ million)	46.27	50.32
A1.4	Total non-hazardous waste produced and intensity			
	– in total			
	Paper Waste	kg	6,625 (Note 4)	2,270 (Note 5)
	General Waste	kg	2,268	N/A
	Food Waste	kg	3,760	N/A
	– by intensity			
	Paper Waste	kg/FTE (Note 6)	31.25	N/A
	General Waste	kg/FTE	10.70	N/A
	Food Waste	kg/FTE	37.60	N/A
A1.6	Non-hazardous waste reduction rate			
	Paper Waste	%	46.46 (Note 7)	74.92
	General Waste	%	/ (Note 8)	15.13 (Note 9)
	Food Waste (Note 10)	%	16.00	15.00
A2.1	Energy consumption by type and intensity (Note 3)			
	– Fuel oil	Litres	1,998,688	2,106,549
	– Electricity	kWh	1,940,756	1,731,100
	– in total	1000 kWh	24,105	25,107 (restated)
	– by intensity	1000 kWh per Ferry, shipyard and related operations total revenue (HK$ million)	153.60	169.91
A2.2	Water Consumption in total and intensity			
	– in total	m^3	17,667	N/A
	– by intensity	m^3/FTE	83.33	N/A

7. PERFORMANCE DATA SUMMARY (Continued)

HKEx KPI		Unit	FY2016			FY2015 (Note 1)		
B. Social								
B1.1	Total workforce by employment type and gender		Male	Female		Male	Female	
	Full-time	No. of people	171	41		191	90	
	Part-time	No. of people	0	0		0	7	
	Total workforce by employment type and age group		Under 30	30-50	Above 50	Under 30	30-50	Above 50
	Full-time	No. of people	25	60	127	53	87	141
	Part-time	No. of people	0	0	0	5	0	2
B1.2	Employee turnover rate by gender		Male	Female		Male	Female	
		%	6.9	0.9		7.30	10.43	
	Employee turnover rate by age group		Under 30	30-50	Above 50	Under 30	30-50	Above 50
		%	2.8	3.2	1.9	11.0	4.0	3.0
B2.1	Number and rate of work-related fatalities							
	– By number	No. of people	0			0		
	– By rate	%	0			0		
B2.2	Lost days due to work injury							
		Days	583			736		
B3.1	The percentage of employees trained by employee category and gender		TOTAL	Male	Female	TOTAL	Male	Female
	– General	%	98.30	98.66	96.30	82.41	N/A	N/A
	– Supervisors to Managers	%	100	100	100	83.64	N/A	N/A
	– Management	%	100	100	100	100	N/A	N/A
	– Overall	%	98.58	98.83	97.56	83.27	N/A	N/A

7. PERFORMANCE DATA SUMMARY (Continued)

HKEx KPI		Unit	FY2016			FY2015 (Note 1)		
B. Social (Continued)								
B3.2	The average training hours completed per employee by employee category and gender		TOTAL	Male	Female	TOTAL	Male	Female
	– General	Hours	17.87	20.04	5.90	29.72	N/A	N/A
	– Supervisors to Managers	Hours	17.59	19.43	15.46	7.60	N/A	N/A
	– Management	Hours	56.16	60.43	26.25	46.20	N/A	N/A
	– Overall	Hours	19.28	21.64	9.43	25.98	N/A	N/A
B5.1	Number of suppliers by geographical region (Note 11)							
	– Hong Kong	No. of organisations	585			614		
	– Mainland China	No. of organisations	46			116		
	– Others (e.g. Asia and Europe)	No. of organisations	60			130		
B6.2	Number of product and service related complaints received							
	No. of cases		0 (Note 12)			92		
B7.1	Number of concluded cases regarding corrupt practices brought against Hong Kong Ferry or its employees during the reporting year							
	No. of cases		0			0		

Notes:

1. In order to enhance data comparability and accuracy, the A1.2 and A2.1 data for 2015 have been updated with more accurate emission and energy factors. Sources of emission and energy factors can be found at: https://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/Documents/app2_kpis.pdf and http://www.effship.com/PartnerArea/MiscPresentations/Dr_Wild_Report.pdf.
2. Emission data was confined to The Hongkong and Yaumati Ferry Company Limited.
3. For 2015, GHG emission data and energy consumption data were confined to The Hong Kong Shipyard Limited and The Hongkong and Yaumati Ferry Company Limited. For 2016, Harbour Cruise - Bauhinia has been included in the scope of the calculation of GHG emissions and energy consumption as reporting capacity matures. With consideration of the scope, the intensity figures of GHG emissions and energy consumption are calculated using the Ferry, shipyard and related operations total revenue (HK$ million).
4. The increase in total paper waste produced is partly due to the availability of more paper waste data from our business units. This data is confined to the principal office and Harbour Cruise - Bauhinia.
5. This data is confined to the principal office.
6. FTE: Full-time equivalent employee; excluding the part-time employees.
7. Paper waste reduction rate data is confined to the principal office and calculated with 2014 as the baseline year (i.e. (Amount of waste generated in Year 2014 – Amount of waste generated in reporting year)/Amount of waste generated in Year 2014). The amount of paper waste generated in principal office was 9,050 kg in 2014, 2,270 kg in 2015, and 4,845 kg in 2016.
8. Unable to provide the reduction rate of General Waste due to change in reporting scope.
9. This data was confined to HYFCO Travel Agency Limited.
10. This data was confined to Harbour Cruise – Bauhinia.
11. Suppliers data was confined to The Hong Kong Shipyard Limited, The Hongkong and Yaumati Ferry Company Limited and Harbour Cruise – Bauhinia (HYFCO Travel Agency Limited was included in the scope in 2015 only).
12. This significant decrease is due to the change in reporting scope (HYFCO Travel Agency Limited is not included in the scope this year).

8. HKEX ESG CONTENT INDEX

Aspect	HKEx KPI	Description	Page Number/ Remarks
A. Environmental			
A1 Emissions	A1	General Disclosure	43-46
	A1.1	The types of emissions and respective emissions data	43-45, 54
	A1.2	Greenhouse gas emissions in total and intensity	54
	A1.3	Total hazardous waste produced and intensity	Not applicable to Hong Kong Ferry Group
	A1.4	Total non-hazardous waste produced and intensity	54
	A1.5	Description of measures to mitigate emissions and results achieved	43-45
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	46
A2 Use of Resources	A2	General Disclosure	43-46
	A2.1	Direct and/or indirect energy consumption by type in total and intensity	54
	A2.2	Water consumption in total and intensity	54
	A2.3	Description of energy use efficiency initiatives and results achieved	43-45
	A2.4	Description of issue in sourcing water, water efficiency initiatives and results achieved	45-46
	A2.5	Total packaging material used for finished products	Not applicable to Hong Kong Ferry Group
A3 The Environment and Natural Resources	A3	General Disclosure	43-46
	A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	43-46

8. HKEX ESG CONTENT INDEX (Continued)

Aspect	HKEx KPI	Description	Page Number/ Remarks
B. Social			
Employment and Labour Practices			
B1 Employment	B1	General Disclosure	47-49
	B1.1	Total workforce by gender, employment type, age group and geographical region	55
	B1.2	Employee turnover rate by gender, age group and geographical region	55
B2 Health and Safety	B2	General Disclosure	49
	B2.1	Number and rate of work-related fatalities	55
	B2.2	Lost days due to work injury	55
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	49
B3 Development and Training	B3	General Disclosure	49
	B3.1	Percentage of employees trained by gender and employee category	55
	B3.2	Average training hours completed per employee by gender and employee category	56
B4 Labour Standards	B4	General Disclosure	We abide by relevant employment ordinances and statutory requirements of Hong Kong. No relevant cases of non-compliance were recorded.
	B4.1	Description of measures to review employment practices to avoid child and forced labour	
	B4.2	Description of steps taken to eliminate such practices when discovered	

8. HKEX ESG CONTENT INDEX (Continued)

Aspect	HKEx KPI	Description	Page Number/ Remarks
B. Social (Continued)			
Operating Practices			
B5 Supply Chain Management	B5	General Disclosure	52
	B5.1	Number of suppliers by geographical region	56
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where and how the practices are being implemented and monitored	52
B6 Product Responsibility	B6	General Disclosure	53
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not applicable to Hong Kong Ferry Group
	B6.2	Number of products and service related complaints received and how they are dealt with	56
	B6.3	Description of practices relating to observing and protecting intellectual property rights	53
	B6.4	Description of quality assurance process and recall procedures	53
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	53
B7 Anti-corruption	B7	General Disclosure	49, 52
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	56
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	49, 52
Community			
B8 Community Investment	B8	General Disclosure	50-51
	B8.1	Focus areas of contribution	50-51
	B8.2	Resources contributed to the focus area	50-51

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of
Hong Kong Ferry (Holdings) Company Limited
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Hong Kong Ferry (Holdings) Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 66 to 144, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

Valuation of investment properties

Refer to note 1 (accounting policy) and note 13 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
The Group's investment properties which comprise retail properties, car parking spaces and godowns are located in Hong Kong. These investment properties were stated at their fair values of HK$2,051 million as at 31 December 2016 which accounted for 49% of the Group's non-current assets as at that date. The fair values of the Group's investment properties as at 31 December 2016 were assessed by the board of directors based on independent valuations prepared by a firm of qualified external property valuers. The net changes in fair values of investment properties recorded in the consolidated profit or loss represented 25% of the Group's profit for the year ended 31 December 2016. The valuation of the Group's investment properties is complex and involves a significant degree of management judgement and estimation in respect of the determination of capitalisation rates and prevailing market rents, particularly given the dissimilar nature of the investment properties held by the Group. We identified valuation of investment properties as a key audit matter because these properties represent the majority of the Group's non-current assets and because the valuations are inherently subjective and involve a significant degree of judgement and estimation by management which increases the risk of error or potential management bias.	Our audit procedures in relation to valuation of investment properties included the following: – obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group and on which the directors' assessment of the fair values of investment properties was based; – assessing the external property valuers' qualifications, experience and expertise in the properties being valued and considering their objectivity and independence; – with the assistance of our internal property valuation specialists, discussing with the external property valuers their valuation methodology, without the presence of management, and challenging the key estimates and assumptions adopted in the valuations by comparing capitalisation rates, prevailing market rents and comparable market transactions with the market available data and government produced market statistics; – comparing tenancy information, including committed rents and occupancy rates, provided by the Group to the external property valuers with underlying contracts and related documentation, on a sample basis.

KEY AUDIT MATTERS (Continued)

Assessing the net realisable value of properties under development for sale ("PUD")

Refer to note 1 (accounting policy) and note 19 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
The PUD of the Group is located in Hong Kong and is stated at lower of cost and net realisable value which totalled HK$327 million as at 31 December 2016. The determination of the net realisable value of the PUD is performed by management. It involves significant judgement and estimation in preparing and updating project feasibility studies and estimations of the costs to complete the property development projects as well as in assessing the expected future selling prices for the properties and the expected future selling costs. Changes in government policies in relation to the stamp duty regime, restrictions on residential property mortgage loans and the impact of the global economy on local interest rates could lead to volatility in property prices in Hong Kong. We identified the assessment of net realisable value of the Group's PUD as a key audit matter because of the inherent risks involved in estimating the costs to complete each property development project and in estimating the future selling prices for each property development project.	Our audit procedures to assess the net realisable value of PUD included the following: – obtaining management's assessment of the net realisable value of each PUD project and discussing with management the development progress of each project; – conducting site visits to the PUD to observe the development progress and comparing the observed development progress with management's records; – discussing with management their valuation methodology and challenging the key estimates and assumptions adopted, including expected future selling prices and costs to completion, by comparison with recently transacted prices for similar properties or the prices of comparable properties located in the nearby vicinity of the PUD and by comparison with market statistics for estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group; – performing sensitivity analyses by making adjustments to the key estimates and assumptions adopted by management in the determination of net realisable value to assess the risk of possible management bias in the net realisable value assessment exercise.

KEY AUDIT MATTERS (Continued)

Assessment of impairment of available-for-sale ("AFS") securities

Refer to note 1 (accounting policy) and note 17 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the Group held a portfolio of AFS securities with a fair value of HK$662 million and recognised impairment of HK$46 million in the consolidated statement of profit or loss for the year ended 31 December 2016. The Group recognises impairment for AFS securities in the consolidated statement of profit or loss when there is objective evidence of impairment, which includes when there has been a significant or prolonged decline in the fair value of an investment. The impairment recognised in the consolidated statement of profit or loss is the cumulative difference between cost (less any impairment previously recognised) and fair value. We identified the assessment of impairment of AFS securities as a key audit matter because of the significance of AFS securities to the Group's total assets and the significance of impairment of AFS securities to the Group's profit and because the determination of whether there is objective evidence of impairment involves significant management judgement and is subject to potential management bias.	Our audit procedures to assess the potential impairment of AFS securities included the following: – comparing the fair values of all AFS securities at 31 December 2016 to external third party sources and recalculating the cumulative fair value gain or loss; – discussing with management whether there was any objective evidence of impairment of individual AFS securities as at 31 December 2016 and critically challenging management's assertions and conclusions; – assessing whether there was objective evidence of impairment for AFS securities where there was a cumulative fair value loss as at 31 December 2016 by analysing the recent movements in market prices of securities based on external third party sources and inspecting third party analysts' forecasts of future market prices for these securities.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ho Wai Ming.

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

17 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 (restated) HK$'000
Continuing operations			
Revenue	3(a)	**501,759**	973,625
Direct costs		**(245,205)**	(661,095)
		256,554	312,530
Other revenue	3(a) & 4	**46,175**	35,221
Other net income	4	**47,310**	26,520
Valuation gains on investment properties	3(d) & 13	**59,305**	15,627
Impairment loss on available-for-sale securities	17	**(46,281)**	(51,992)
Selling and marketing expenses		**(25,311)**	(45,922)
Administrative expenses		**(42,097)**	(43,547)
Other operating expenses		**(4,628)**	(8,522)
Profit from operations	3(b)	**291,027**	239,915
Share of profits less losses of associates		**920**	1,063
Share of loss of a joint venture		**(5)**	–
Gain on disposal of subsidiaries		**4,561**	–
Profit before taxation	6	**296,503**	240,978
Taxation	7(a)	**(51,942)**	(38,556)
Profit for the year from continuing operations		**244,561**	202,422
Discontinued operation			
Loss for the year from discontinued operation	5(a)	**(7,883)**	(9,507)
Profit attributable to equity shareholders of the Company		**236,678**	192,915
Earnings/(loss) per share – Basic and diluted	12		
– Continuing operations		**$0.68**	$0.57
– Discontinued operation		**(0.02)**	(0.03)
		$0.66	$0.54

The notes on pages 73 to 144 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 10.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Profit attributable to equity shareholders of the Company		**236,678**	192,915
Other comprehensive income for the year (after tax and reclassification adjustments)	*11*		
Item that will not be reclassified to profit or loss:			
Remeasurement of employee retirement benefits liabilities		**649**	(1,698)
Item that may be reclassified subsequently to profit or loss:			
Available-for-sale securities:			
net movement in the securities revaluation reserve		**28,871**	(127,003)
Other comprehensive income for the year		**29,520**	(128,701)
Total comprehensive income attributable to equity shareholders of the Company		**266,198**	64,214

The notes on pages 73 to 144 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 HK$'000	2016 HK$'000	2015 HK$'000	2015 HK$'000
Non-current assets					
Investment properties	13		**2,050,655**		2,001,100
Other property, plant and equipment	13		**58,957**		61,407
Interest in leasehold land	13		**41,769**		43,138
			2,151,381		2,105,645
Interest in associates	15		**10,449**		11,121
Interest in a joint venture	16		**1,354,395**		–
Available-for-sale securities	17		**661,542**		827,680
Deferred tax assets	24(b)		**5,248**		5,152
			4,183,015		2,949,598
Current assets					
Inventories	19(a)	**487,162**		492,906	
Trade and other receivables	20	**853,769**		213,490	
Other financial assets	21	**20,000**		90,375	
Cash and bank balances	22(a)	**949,449**		2,391,857	
Tax recoverable	24(a)	**22,174**		35,283	
		2,332,554		3,223,911	
Current liabilities					
Trade and other payables	23	**629,706**		261,308	
Tax payable	24(a)	**41,288**		210,798	
		670,994		472,106	
Net current assets			**1,661,560**		2,751,805
Total assets less current liabilities			**5,844,575**		5,701,403
Non-current liabilities					
Net employee retirement benefits liabilities	18(a)	**4,468**		4,330	
Deferred tax liabilities	24(b)	**50,062**	**54,530**	44,968	49,298
NET ASSETS			**5,790,045**		5,652,105

At 31 December 2016

		2016		2015	
	Note	HK$'000	HK$'000	HK$'000	HK$'000
CAPITAL AND RESERVES					
Share capital	25(b)		**1,754,801**		1,754,801
Reserves			**4,035,244**		3,897,304
TOTAL EQUITY			**5,790,045**		5,652,105

Approved and authorised for issue by the board of directors on 17 March 2017.

Dr. Lam Ko Yin, Colin
Chairman

Li Ning
Director

The notes on pages 73 to 144 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Note	Share capital HK$'000 (Note 25(b))	Securities revaluation reserve HK$'000 (Note 25(c))	Other capital reserves HK$'000 (Note 25(c))	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2015		1,754,801	95,783	605	3,971,842	5,823,031
Changes in equity for 2015:						
Profit for the year		–	–	–	192,915	192,915
Other comprehensive income		–	(127,003)	–	(1,698)	(128,701)
Total comprehensive income		–	(127,003)	–	191,217	64,214
Dividends approved in respect of the previous year	*10*	–	–	–	(199,513)	(199,513)
Dividends declared in respect of the current year	*10*	–	–	–	(35,627)	(35,627)
Balance at 31 December 2015 and 1 January 2016		**1,754,801**	**(31,220)**	**605**	**3,927,919**	**5,652,105**
Changes in equity for 2016:						
Profit for the year		**–**	**–**	**–**	**236,678**	**236,678**
Other comprehensive income		**–**	**28,871**	**–**	**649**	**29,520**
Total comprehensive income		**–**	**28,871**	**–**	**237,327**	**266,198**
Dividends approved in respect of the previous year	*10*	**–**	**–**	**–**	**(92,631)**	**(92,631)**
Dividends declared in respect of the current year	*10*	**–**	**–**	**–**	**(35,627)**	**(35,627)**
Balance at 31 December 2016		**1,754,801**	**(2,349)**	**605**	**4,036,988**	**5,790,045**

The notes on pages 73 to 144 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

	Note	2016 HK$'000	2016 HK$'000	2015 (restated) HK$'000	2015 (restated) HK$'000
Operating activities					
Profit/(loss) before taxation					
– Continuing operations			**296,503**		240,978
– Discontinued operation			**(7,780)**		(9,507)
			288,723		231,471
Adjustments for:					
Depreciation	6(b)	**5,884**		5,893	
Amortisation of leasehold land premium	6(b)	**1,369**		1,369	
Impairment losses on trade and other receivables	6(b)	**90**		2,070	
Impairment loss on available-for-sale securities	17	**46,281**		51,992	
Net profit on disposal of available-for-sale securities	4	**(18,928)**		(34,401)	
Net loss on disposal of financial assets designated at fair value through profit or loss	4	**10,040**		–	
Net unrealised loss on financial assets designated at fair value through profit or loss	4	**–**		9,625	
Net loss on disposal of other property, plant and equipment	4	**1**		3	
Net profit on disposal of investment properties	4	**(2,508)**		–	
Gain on disposal of subsidiaries		**(4,561)**		–	
Cost adjustment	4	**(34,145)**		–	
Valuation gains on investment properties	13	**(59,305)**		(15,627)	
Interest income		**(22,531)**		(25,978)	
Dividend income from listed investments		**(25,219)**		(24,756)	
Share of profits less losses of associates		**(920)**		(1,063)	
Share of loss of a joint venture		**5**		–	
			(104,447)		(30,873)
Operating profit before changes in working capital			**184,276**		200,598
Decrease in net employee retirement benefits liabilities		**787**		4,052	
Decrease in inventories		**38,697**		493,818	
(Increase)/decrease in trade and other receivables		**(647,603)**		678,667	
Increase/(decrease) in trade and other payables		**390,582**		(773,651)	
			(217,537)		402,886
Cash (used in)/generated from operations			**(33,261)**		603,484
Profits tax paid		**(203,448)**		(9,180)	
			(203,448)		(9,180)
Net cash (used in)/generated from operating activities			**(236,709)**		594,304

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31 December 2016

	Note	2016 HK$'000	2016 HK$'000	2015 (restated) HK$'000	2015 (restated) HK$'000
Investing activities					
Interest received		**21,387**		25,248	
Payment for purchase of other property, plant and equipment		**(3,874)**		(672)	
Payment for purchase of available-for-sale securities		**(175,149)**		(742,343)	
Proceeds from disposal of available-for-sale securities		**404,157**		291,235	
Net repayment from associates		**1,632**		1,894	
Payment for purchase of financial assets designated at fair value through profit or loss		**(20,000)**		(100,000)	
Proceeds from disposal of investment properties		**4,000**		–	
Proceeds from disposal of subsidiaries	*22(c)*	**2,309**		–	
Loan to a joint venture		**(1,354,400)**		–	
Advances to a joint venture		**(412)**		–	
Proceeds from disposal of financial assets designated at fair value through profit or loss		**18,982**		–	
Dividends received from listed investments		**23,927**		24,854	
Dividends received from an associate		**–**		1,650	
Decrease/(increase) in bank deposits with maturity over three months at acquisition		**283,800**		(283,800)	
Net cash used in investing activities			**(793,641)**		(781,934)
Financing activity					
Dividends paid		**(128,258)**		(235,140)	
Net cash used in financing activity			**(128,258)**		(235,140)
Net decrease in cash and cash equivalents			**(1,158,608)**		(422,770)
Cash and cash equivalents at 1 January			**2,108,057**		2,530,827
Cash and cash equivalents at 31 December	*22(a)*		**949,449**		2,108,057

The notes on pages 73 to 144 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investment properties (see note 1(h));

– financial instruments classified as available-for-sale securities (see note 1(f)); and

– financial assets designated at fair value through profit or loss (see note 1(g)).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to HKFRSs 2012 – 2014 Cycle*
- Amendment to HKAS 1, *Presentation of financial statements: Disclosure initiative*

None of these developments have had a material effect on how the Group's result and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

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

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)).

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 1(k)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities, being those held for non-trading purpose, are classified as available-for-sale securities. Available-for-sale securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the securities revaluation reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(k)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(s)(vii) and 1(s)(vi), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 1(k)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Financial assets designated at fair value through profit or loss

Financial assets may be designated at fair value through profit or loss when:

– the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets on a different basis;

– a group of financial assets is managed and its performance evaluated on a fair value basis; or

– the assets include embedded derivatives and such derivatives are required to be recognised separately.

Financial assets designated at fair value through profit or loss are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(s)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(j).

(i) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

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

Land	Over the unexpired terms of the leases
Buildings	40 years or over the unexpired terms of the leases, if shorter
Leasehold land classified as held under finance leases	Over the unexpired terms of the leases
Ferry vessels and other crafts	8 to 15 years
Machinery, furniture and other plant and equipment	
– Dry dock and ship lift	30 to 40 years
– Others	4 to 10 years

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leased assets

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

(i) Classification of assets leased to the Group

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

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(h)); and

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

(ii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(h)) or is held for development for sale (see note 1(l)(iv)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investment in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets (Continued)

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows: (Continued)

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that has been recognised in the securities revaluation reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– other property, plant and equipment; and

– investments in subsidiaries and associates in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Inventories

(i) Trading stocks

Trading stocks are stated at the lower of cost and net realisable value. Cost includes the cost of materials computed using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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

(ii) Spare parts and consumables

Spare parts and consumables are stated at cost, computed using the weighted average method, less provision for obsolescence.

(iii) Work in progress

Work in progress are construction and repairing in progress at the end of the reporting period and are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings.

(iv) Property development

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Properties under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Inventories (Continued)

(iv) Property development (Continued)

– Completed properties held for sale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(r)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss and allocated as part of "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on Government Bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax

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

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

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(h), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

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

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

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(r)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial guarantees issued, provisions and contingent liabilities (Continued)

(ii) Other provisions and contingent liabilities

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

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

(s) Revenue recognition

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

(i) Sale of properties

Revenue arising from the sale of properties held for sale is recognised upon the later of the signing of the sale and purchase agreement and the completion of the properties, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under deposits received.

(ii) Rental income from operating leases

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

(iii) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customers have accepted the goods and the related risks and rewards of ownership.

(iv) Ferry operations and related services

Revenue relating to ferry operations is recognised when the relevant ferry services are provided.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition (Continued)

(v) Travel business

Revenue arising from the travel business is recognised on the completion date of the tours or when the relevant services are provided.

(vi) Interest income

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

(vii) Dividends

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

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

(u) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Related parties

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

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

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

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

(iii) Both entities 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 note (v)(a).

(vii) A person identified in note (v)(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).

(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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

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

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

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 18 and 26 contain information about the assumptions and their risk factors relating to defined benefit retirement obligation and financial instruments. Other key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are as follows:

(a) Valuation of investment properties

In determining the fair value of the investment properties, the Group has considered information from different sources, including a valuation performed by an independent firm of professional valuers after taking into consideration the net rental income allowing for reversionary income potential, and other available market survey reports.

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

(b) Recognition of deferred tax assets

At 31 December 2016, the Group had recognised deferred tax assets in relation to the unused tax losses amounting to approximately HK$15,200,000 (2015: HK$9,903,000). The realisability of the deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which related tax benefits under the deferred tax assets can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

3 SEGMENT INFORMATION

The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following five reportable segments.

3 SEGMENT INFORMATION (Continued)

Continuing operations:

- Property development: development and sale of properties.
- Property investment: rental income from leasing of properties.
- Ferry, shipyard and related operations: income from operation of dangerous goods vehicular ferry service and ship repairs and maintenance services and sales of goods on cruise vessels.
- Securities investment: dividend, interest and other income from debt and equity securities investments.

Discontinued operation:

- Travel operation: income from management and operation of travel agency services.

The travel operation has been disposed of and classified as discontinued operation and the related information has been set out in note 5.

Segment information is presented only in respect of the Group's business segments. No geographical analysis is shown as less than 10% of the Group's revenue and profit from operations were derived from activities outside Hong Kong.

Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

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

3 SEGMENT INFORMATION (Continued)

The segment information for the years ended 31 December 2016 and 2015 about these reportable segments is presented below:

(a) Segment revenue

	Total revenue		Elimination of inter-segment revenue		Revenue from external customers	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations:						
Property development	**225,980**	728,525	**–**	–	**225,980**	728,525
Property investment	**121,559**	89,786	**–**	–	**121,559**	89,786
Ferry, shipyard and related operations	**156,930**	147,766	**2,525**	3,356	**154,405**	144,410
Securities investment	**31,984**	27,063	**–**	–	**31,984**	27,063
Others	**74,399**	85,398	**60,393**	66,336	**14,006**	19,062
	610,852	1,078,538	**62,918**	69,692	**547,934**	1,008,846
Discontinued operation:						
Travel operation	**62,020**	95,309	**117**	304	**61,903**	95,005
	672,872	1,173,847	**63,035**	69,996	**609,837**	1,103,851
Analysed by:						
Continuing operations						
Revenue					**501,759**	973,625
Other revenue					**46,175**	35,221
					547,934	1,008,846
Discontinued operation						
Revenue					**60,520**	94,031
Other revenue					**1,383**	974
					61,903	95,005
					609,837	1,103,851

3 SEGMENT INFORMATION (Continued)

(a) Segment revenue (Continued)

The principal activities of the Group are property development, property investment, ferry, shipyard and related businesses and securities investment after the Group's travel operation has been disposed of as set out in note 5.

Revenue represents gross income from the sale of properties, sales value of goods delivered to customers, income from services rendered, rental income, interest income and dividend income.

(b) Segment result

	Reportable segment profit	
	2016	2015
	HK$'000	*HK$'000*
Continuing operations:		
Property development	**150,613**	151,690
Property investment *(note 3(d))*	**124,459**	59,132
Ferry, shipyard and related operations	**13,767**	13,906
Securities investment	**(6,806)**	(1,552)
Others *(note 3(e))*	**8,994**	16,739
	291,027	239,915
Discontinued operation:		
Travel operation	**(7,780)**	(9,507)
	283,247	230,408

(c) Reconciliation of reportable segment profit – Continuing operations

	2016	2015
	HK$'000	*HK$'000*
Continuing operations:		
Reportable segment profit derived from external customers of continuing operations	**291,027**	239,915
Share of profits less losses of associates and a joint venture	**915**	1,063
Gain on disposal of subsidiaries	**4,561**	–
Profit before taxation from continuing operations in the consolidated statement of profit or loss	**296,503**	240,978

3 SEGMENT INFORMATION (Continued)

(d) The segment result of the "Property investment" included valuation gains on investment properties of HK$59,305,000 (2015: HK$15,627,000).

(e) "Others" mainly comprises interest income, corporate expenses and exchange gains/losses.

(f) Other segment information

	Depreciation and amortisation		Impairment losses		Capital expenditure incurred	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations:						
Property investment	**3**	4	**81**	8	**–**	107,050
Ferry, shipyard and related operations	**6,878**	6,723	**–**	2,062	**3,763**	327
Securities investment	**–**	–	**46,281**	51,992	**–**	–
Others	**201**	338	**–**	–	**35**	174
	7,082	7,065	**46,362**	54,062	**3,798**	107,551
Discontinued operation:						
Travel operation	**171**	197	**–**	–	**76**	171
	7,253	7,262	**46,362**	54,062	**3,874**	107,722

4 OTHER REVENUE AND NET INCOME

	2016 HK$'000	2015 (restated) HK$'000
Other revenue		
Management fee income	**19,053**	13,060
Air-conditioning charges income	**12,028**	9,086
Other interest income	**8,527**	7,017
Other income	**6,567**	6,058
	46,175	35,221
Other net income		
Cost adjustment *(note)*	**34,145**	–
Net profit on disposal of available-for-sale securities	**18,928**	34,401
Net profit on disposal of investment properties	**2,508**	–
Income from sale of spare parts	**430**	808
Net exchange gains	**7**	96
Net loss on disposal of financial assets designated at fair value through profit or loss	**(10,040)**	–
Net unrealised loss on financial assets designated at fair value through profit or loss	**–**	(9,625)
Net loss on disposal of other property, plant and equipment	**(1)**	(3)
Sundry income	**1,333**	843
	47,310	26,520

Note: Costs adjustment represents the revision of the original construction costs of the properties completed in prior years, confirmed by the surveyors during the year ended 31 December 2016.

5 DISCONTINUED OPERATION

On 14 July 2016, the Group entered into a sale and purchase agreement with Miramar Travel Limited ("Miramar Travel"), a subsidiary of Miramar Hotel and Investment Company, Limited ("Miramar"), to dispose of the Group's entire interest of HYFCO Travel Agency Limited and its subsidiary ("HYFCO Travel Group") at an aggregate consideration based on an agreed value of HK$5,000,000.

Upon completion of the disposal of HYFCO Travel Group, the Group's travel operation would cease. Accordingly, the operation of HYFCO Travel Group was classified as discontinued operation.

The disposal of HYFCO Travel Group was completed on 6 October 2016 and the Group's travel operation ceased thereafter.

(a) The results of the discontinued operation for the current and prior years are as follows:

	Travel operation	
	2016	2015
	HK$'000	*HK$'000*
Revenue	**60,520**	94,031
Direct costs	**(52,565)**	(80,788)
	7,955	13,243
Other revenue	**1,383**	974
Other net income	**160**	292
Administrative expenses	**(5,340)**	(9,547)
Other operating expenses	**(11,938)**	(14,469)
Loss before taxation	**(7,780)**	(9,507)
Income tax	**(103)**	–
Loss for the year	**(7,883)**	(9,507)

(b) The cash flows of the discontinued operation for the current and prior years are as follows:

	Travel operation	
	2016	2015
	HK$'000	*HK$'000*
Net cash used in operating activities	**(5,216)**	(11,711)
Net cash used in investing activities	**(76)**	(171)
Net cash generated from financing activities	**3,760**	11,026
Net cash flows	**(1,532)**	(856)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting) the amounts as set out below. The disclosures presented in this note include those amounts charged/(credited) in respect of the discontinued operation.

(a) Staff costs:

	2016 ***HK$'000***	2015 *HK$'000*
Expense recognised in respect of defined benefit retirement plan *(note 18(a)(v))*	**1,444**	4,091
Contributions to defined contribution retirement plan	**2,775**	2,778
Total retirement costs	**4,219**	6,869
Salaries, wages and other benefits	**90,915**	92,463
	95,134	99,332

(b) Other items:

	2016 ***HK$'000***	2015 *HK$'000*
Amortisation of leasehold land premium	**1,369**	1,369
Depreciation	**5,884**	5,893
Cost of inventories *(note 19(b))*	**87,224**	531,507
Auditor's remuneration		
– audit services	**1,692**	1,689
– other services	**335**	305
Operating lease charges: minimum lease payments		
– property rentals	**2,146**	5,217
Impairment losses on trade and other receivables	**90**	2,070
Rentals receivable from investment properties less direct outgoings of HK$46,114,000 (2015: HK$33,250,000) *(note)*	**(42,985)**	(33,379)
Rentals receivable from operating leases, other than those relating to investment properties, less direct outgoings of HK$1,010,000 (2015: HK$994,000)	**(2,281)**	(4,269)
Interest income	**(22,531)**	(25,978)
Dividend income from listed investments	**(25,219)**	(24,756)

Note: Included contingent rental income of HK$2,454,000 (2015: HK$707,000).

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2016	2015
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**35,356**	31,890
Under/(over)-provision in respect of prior years	**11,691**	(81)
	47,047	31,809
Deferred tax		
Origination and reversal of temporary differences	**4,895**	6,747
	51,942	38,556

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Government of Hong Kong Special Administrative Region of 75% of the tax payable for the year of assessment 2015/16 subject to a maximum reduction of HK$20,000 for each business (2015: a maximum reduction of HK$20,000 was granted for the year of assessment 2014/15 and was taken into account in calculating the provision for 2015).

In prior years, the Inland Revenue Department ("IRD") raised additional profits tax assessments on a subsidiary of the Group covering the years of assessment from 2001/02 to 2009/10 as the IRD disallowed the deduction of certain capital expenditure incurred by the subsidiary. Notices of objection were filed with the IRD by the subsidiary. In February 2017, the IRD further raised additional profits tax assessments covering the years of assessment from 2010/11 to 2014/15 in respect of such disallowance. Management has sought advice from the Group's tax adviser and will file a notice of objection against such additional tax assessments.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

(b) Reconciliation between tax expense and accounting profit at an applicable tax rate:

	2016	2015
		(restated)
	HK$'000	*HK$'000*
Profit before taxation	**296,503**	240,978
Notional tax on profit before taxation, calculated at 16.5%	**48,923**	39,761
Tax effect of non-deductible expenses	**21,119**	10,215
Tax effect of non-taxable income	**(31,268)**	(11,534)
Tax effect of current year's tax losses not recognised	**2,568**	361
Tax effect of prior years' unrecognised tax losses utilised this year	**–**	(88)
Tax effect of temporary differences on investment properties and other property, plant and equipment	**(1,091)**	(78)
Under/(over)-provision in respect of prior years	**11,691**	(81)
Actual tax expense	**51,942**	38,556

8 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and Chief Executive's emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance, Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and Appendix 16 to the Listing Rules are as follows:

	Directors' fees	
	2016	2015
	HK$'000	*HK$'000*
Executive directors		
Dr. Lam Ko Yin, Colin	**200**	200
Mr. Li Ning	**150**	150
Non-executive directors		
Mr. Au Siu Kee, Alexander	**100**	100
Mr. Lau Yum Chuen, Eddie	**100**	100
Dr. Lee Shau Kee	**100**	100
Mr. Wong Man Kong, Peter	**100**	100
Independent non-executive directors		
Mr. Ho Hau Chong, Norman	**300**	300
Mr. Leung Hay Man	**300**	300
Ms. Wong Yu Pok, Marina	**300**	300
Mr. Wu King Cheong	**300**	300
	1,950	1,950

	Salaries and other emoluments	
	2016	2015
	HK$'000	*HK$'000*
Group General Manager		
Dr. Ho Chi Shing, David	**3,120**	3,001

9 EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

(a) Five highest paid individuals

Of the five individuals with the highest emoluments, one (2015: one) is the chief executive whose emoluments is disclosed in note 8. The aggregate of the emoluments in respect of the remaining four (2015: four) individuals are as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Salaries and other emoluments	**3,908**	3,641
Retirement scheme contributions	**107**	154
	4,015	3,795

The emoluments of the four (2015: four) individuals with the highest emoluments are within the following bands:

HK$	**2016** ***Number of individuals***	2015 *Number of individuals*
1,000,000 or below	**2**	3
1,000,001-1,500,000	**2**	1

(b) Emoluments of senior management

Other than the emoluments of directors, chief executive and five highest paid individuals disclosed in note 8 and 9(a), the emoluments of the remaining senior management whose profiles are provided in Directors' and Senior Management's Profile fell within the following bands:

HK$	**2016** ***Number of individuals***	2015 *Number of individuals*
500,001-1,000,000	**1**	2

10 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2016 *HK$'000*	2015 *HK$'000*
Interim dividend declared and paid of HK10 cents (2015: HK10 cents) per ordinary share	**35,627**	35,627
Final dividend proposed after the end of the reporting period of HK26 cents (2015: HK26 cents) per ordinary share	**92,631**	92,631
	128,258	128,258

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2016 *HK$'000*	2015 *HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK26 cents (2015: HK26 cents) per ordinary share	**92,631**	92,631
Second special dividend in respect of the previous financial year, approved and paid during the year, of Nil (2015: HK30 cents) per ordinary share	**–**	106,882
	92,361	199,513

11 OTHER COMPREHENSIVE INCOME

Components of other comprehensive income, including reclassification adjustments

	2016 HK$'000	2015 HK$'000
Remeasurement of employee retirement benefits liabilities	**649**	(1,698)
Available-for-sale securities		
Changes in fair value recognised during the year	**2,467**	(145,741)
Reclassification adjustments for amounts transferred to profit or loss:		
– profit on disposal	**(19,877)**	(33,254)
– impairment losses	**46,281**	51,992
Net movement in the securities revaluation reserve during the year recognised in other comprehensive income	**28,871**	(127,003)
Other comprehensive income	**29,520**	(128,701)

Tax effect of the above components of other comprehensive income is HK$Nil.

12 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$236,678,000 (2015: HK$192,915,000) represented by the profit from continuing operations of HK$244,561,000 (2015: HK$202,422,000) and the loss from discontinued operation of HK$7,883,000 (2015: HK$9,507,000) and 356,273,883 (2015: 356,273,883) ordinary shares in issue during the year.

There were no dilutive potential ordinary shares in existence during the years 2016 and 2015, therefore diluted earnings per share are the same as basic earnings per share for both years.

13 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

	Buildings	Ferry vessels and other crafts	Machinery, furniture and others	Sub-total	Investment properties	Interest in leasehold land	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:							
At 1 January 2015	71,647	118,077	280,344	470,068	1,880,200	159,407	2,509,675
Additions	2	–	670	672	–	–	672
Transfer from inventories	–	–	–	–	107,050	–	107,050
Cost adjustment *(note)*	–	–	–	–	(1,777)	–	(1,777)
Disposals	–	–	(174)	(174)	–	–	(174)
Valuation gains	–	–	–	–	15,627	–	15,627
At 31 December 2015	71,649	118,077	280,840	470,566	2,001,100	159,407	2,631,073
Representing:							
Cost	71,649	118,077	280,840	470,566	–	159,407	629,973
Valuation	–	–	–	–	2,001,100	–	2,001,100
	71,649	118,077	280,840	470,566	2,001,100	159,407	2,631,073
Accumulated amortisation and depreciation:							
At 1 January 2015	60,230	115,373	227,834	403,437	–	114,900	518,337
Charge for the year	1,229	386	4,278	5,893	–	1,369	7,262
Written back on disposals	–	–	(171)	(171)	–	–	(171)
At 31 December 2015	61,459	115,759	231,941	409,159	–	116,269	525,428
Net book value:							
At 31 December 2015	10,190	2,318	48,899	61,407	2,001,100	43,138	2,105,645

13 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

	Buildings HK$'000	Ferry vessels and other crafts HK$'000	Machinery, furniture and others HK$'000	Sub-total HK$'000	Investment properties HK$'000	Interest in leasehold land HK$'000	Total HK$'000
Cost or valuation:							
At 1 January 2016	71,649	118,077	280,840	470,566	2,001,100	159,407	2,631,073
Additions	3,327	–	547	3,874	–	–	3,874
Cost adjustment *(note)*	–	–	–	–	(8,258)	–	(8,258)
Disposals	–	–	(261)	(261)	(1,492)	–	(1,753)
Reduction through disposal of subsidiaries	(1,773)	–	(4,065)	(5,838)	–	–	(5,838)
Valuation gains	–	–	–	–	59,305	–	59,305
At 31 December 2016	73,203	118,077	277,061	468,341	2,050,655	159,407	2,678,403
Representing:							
Cost	73,203	118,077	277,061	468,341	–	159,407	627,748
Valuation	–	–	–	–	2,050,655	–	2,050,655
	73,203	118,077	277,061	468,341	2,050,655	159,407	2,678,403
Accumulated amortisation and depreciation:							
At 1 January 2016	61,459	115,759	231,941	409,159	–	116,269	525,428
Charge for the year	1,247	546	4,091	5,884	–	1,369	7,253
Written back on disposals	–	–	(260)	(260)	–	–	(260)
Written back through disposal of subsidiaries	(1,765)	–	(3,634)	(5,399)	–	–	(5,399)
At 31 December 2016	60,941	116,305	232,138	409,384	–	117,638	527,022
Net book value:							
At 31 December 2016	12,262	1,772	44,923	58,957	2,050,655	41,769	2,151,381

Note: Cost adjustment represents the revision of the original construction cost of the properties completed in prior years, confirmed by the surveyor during the years ended 31 December 2015 and 2016.

13 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

(a) Fair value measurement of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

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

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

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

		Fair value measurements as at 31 December 2016 categorised into		
	Fair value at 31 December 2016	**Level 1**	**Level 2**	**Level 3**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurement				
Investment properties	**2,050,655**	**–**	**–**	**2,050,655**

		Fair value measurements as at 31 December 2015 categorised into		
	Fair value at 31 December 2015	**Level 1**	**Level 2**	**Level 3**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement				
Investment properties	2,001,100	–	–	2,001,100

13 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

(a) Fair value measurement of investment properties (Continued)

(i) Fair value hierarchy (Continued)

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation process

All the Group's investment properties were revalued as at 31 December 2016. The valuations were carried out by an independent firm of surveyors, DTZ Cushman & Wakefield, who have among their staff Members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis. The management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

(ii) Information about Level 3 fair value measurements

The fair values of investment properties were determined using income capitalisation approach which capitalised the net income of the properties and taking into account the reversionary potential of properties after expiry of the current leases except for an investment property which was determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis using market data which is publicly available.

Below is a table which presents the significant unobservable inputs:

Income capitalisation approach

	Range of capitalisation rates		Range of occupancy rates	
	2016	2015	**2016**	2015
	%	%	**%**	%
Retail	**3.5% – 5%**	3.5% – 5%	**74% – 100%**	9% – 100%
Car park	**4.75% – 7%**	4.75% – 6.5%	**36% – 97%**	86% – 95%

Market comparison approach

	Market unit sales price	
	2016	2015
	HK$/sq. ft.	*HK$/sq. ft.*
Godown	**575 – 593**	378 – 400

13 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

(a) Fair value measurement of investment properties (Continued)

(ii) Information about Level 3 fair value measurements (Continued)

The fair value measurement of investment properties is positively correlated to the occupancy rate and market unit sales price and negatively correlated to the capitalisation rate.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2016	2015
	HK$'000	*HK$'000*
Investment properties		
At 1 January	**2,001,100**	1,880,200
Transfer from inventories	**–**	107,050
Cost adjustment	**(8,258)**	(1,777)
Disposal	**(1,492)**	–
Valuation gains	**59,305**	15,627
At 31 December	**2,050,655**	2,001,100

Fair value adjustment of investment properties is recognised in the line item "valuation gains on investment properties" on the face of the consolidated statement of profit or loss.

All the gains recognised in profit or loss for the year arise from the properties held at the end of the reporting period.

(b) The analysis of the net book value of all the properties, which are held in Hong Kong, is as follows:

	2016	2015
	HK$'000	*HK$'000*
Medium-term leases	**2,104,686**	2,054,428

13 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

(c) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one month to nine years, with an option to renew the lease after that date at which time all terms are renegotiated. Certain of the leases include contingent rentals calculated with reference to the revenue of tenants.

All properties held under operating leases that would otherwise meet the definition of investment properties are classified as investment properties.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Within 1 year	**61,690**	59,415
After 1 year but within 5 years	**69,791**	62,807
After 5 years	**14,159**	18,800
	145,640	141,022

14 INTEREST IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

		Proportion of ownership interests		
	Particulars of issued and paid up capital	**Held by the Company**	**Held by subsidiaries**	**Principal activities**
HYFCO Development Company, Limited	1,200,003 shares	100%	–	Investment holding
The Hong Kong Shipyard Limited	170,000 shares	100%	–	Shipbuilding and repairs
HYFCO Trading and Investments Company Limited	2 shares	100%	–	Trading
HYFCO Estate Management & Agency Limited	2,500,000 shares	100%	–	Property management

14 INTEREST IN SUBSIDIARIES (Continued)

	Particulars of issued and paid up capital	Proportion of ownership interests: Held by the Company	Proportion of ownership interests: Held by subsidiaries	Principal activities
The Hongkong and Yaumati Ferry Company Limited	1,000,000 shares	100%	–	Ferry operations
Galaxy Hotel Management Company Limited	1,000,000 shares	-	100%	Floating restaurant business
Genius Star Development Limited	2 shares	100%	–	Property investment
Pico International Limited	6,000,000 shares	100%	–	Investment holding
Hong Kong Ferry Finance Company Limited	2 shares	100%	–	Funding for group companies
Thommen Limited	2 shares	100%	–	Investment holding
Lenfield Limited	2 shares	100%	–	Property development, investment and financing
HKF Property Investment Limited	2 shares	100%	–	Property investment
Join Galaxy Limited	2 shares	–	100%	Property financing
Merry World Assets Limited	50,000 shares	100%	–	Investment holding
Jet Legend Limited	1 share	100%	–	Property development and financing
World Light Limited	1 share	100%	–	Property development, investment and financing
Well Dynamic Limited	1 share	100%	–	Property development, investment and financing

All the subsidiaries listed above are incorporated in Hong Kong except for Merry World Assets Limited which is incorporated in the British Virgin Islands.

15 INTEREST IN ASSOCIATES

	2016 HK$'000	2015 HK$'000
Share of net assets	**344**	5,725
Amounts due from associates	**16,899**	12,190
	17,243	17,915
Less: impairment loss	**(6,794)**	(6,794)
	10,449	11,121

Except for the amount advanced to 2OK Company Limited ("2OK") which is interest-bearing at Hong Kong dollar prime rate minus 3% (2015: Hong Kong dollar prime rate minus 3%) per annum, as disclosed in note 30(b)(ii), all of the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. All the amounts due from associates are not expected to be recovered within one year.

The following list contains the particulars of associates, all of which are unlisted corporate entities whose quoted market price is not available:

	Particulars of issued and paid up capital	Proportion of ownership interest held by subsidiaries	Principal activities
2OK	10 ordinary shares	50%	Property financing
Authian Estates Limited	5,000 A shares 5,000 B shares	50%	Property investment
Winwide Limited	100 ordinary shares	30%	Trading

All of the associates are incorporated and operate in Hong Kong.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

15 INTEREST IN ASSOCIATES (Continued)

Aggregate information of associates that are not individually material:

	2016 *HK$'000*	2015 *HK$'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**344**	5,725
Aggregate amounts of the Group's share of those associates'		
Profit for the year	**920**	1,063
Total comprehensive income	**920**	1,063

16 INTEREST IN A JOINT VENTURE

	2016 *HK$'000*	2015 *HK$'000*
Share of net liabilities	**(5)**	–
Loan to a joint venture	**1,354,400**	–
	1,354,395	–

The loan to a joint venture is unsecured, interest-bearing at a rate to be agreed by the Group and the joint venture partner and recoverable on demand. The balance is not expected to be recovered within one year. During the year and as at 31 December 2016, the balance did not bear any interest.

Details of the group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued capital	Proportion of ownership interest held by subsidiaries	Principal activity
Win Standard Enterprises Limited	Incorporated	Hong Kong	10,000 ordinary shares	50%	Property development

The joint venture is an unlisted corporate entity whose quoted market price is not available.

16 INTEREST IN A JOINT VENTURE (Continued)

Summarised financial information of the joint venture, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

Gross amounts of the joint venture's	**2016** ***HK$'000***	2015 *HK$'000*
Current assets	**2,709,673**	–
Non-current assets	**–**	–
Current liabilities	**(882)**	–
Non-current liabilities	**(2,708,800)**	–
Equity	**(9)**	–
Included in the above assets and liabilities:		
Cash and cash equivalents	**–**	–
Current financial liabilities (excluding trade and other payables and provisions)	**(809)**	–
Non-current financial liabilities (excluding trade and other payables and provisions)	**(2,708,800)**	–
Revenue	**–**	–
Loss for the year	**(9)**	–
Other comprehensive income	**–**	–
Total comprehensive income	**(9)**	–

No depreciation and amortisation, interest income, interest expenses and income tax expenses is included in the above profit.

	2016 ***HK$'000***	2015 *HK$'000*
Reconciled to Group's interest in the joint venture		
Gross amounts of the joint venture's net liabilities	**(9)**	–
Group's effective interest	**50%**	–
Group's share of the joint venture's net liabilities	**(5)**	–

17 AVAILABLE-FOR-SALE SECURITIES

	2016 *HK$'000*	2015 *HK$'000*
Listed debt securities outside Hong Kong	**183,056**	25,011
Listed equity securities		
– in Hong Kong	**454,259**	768,444
– outside Hong Kong	**24,227**	34,225
	478,486	802,669
	661,542	827,680
Market value of listed securities at 31 December	**661,542**	827,680
Fair value of individually impaired available-for-sale securities	**56,705**	216,837

As at 31 December 2016, certain of the Group's listed available-for-sale equity securities were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market in which these investees operated which indicated that the cost of the Group's investment in them may not be recovered. Impairment losses of HK$46,281,000 (2015: HK$51,992,000) on these investments were recognised in profit or loss in accordance with the policy set out in note 1(k)(i).

18 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES

(a) Defined benefit retirement plan

The Group makes contributions to a defined benefit retirement plan registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong), which covers 11.7% (2015: 12.2%) of the Group's employees. The plan is administered by independent trustees with their assets held separately from those of the Group.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on annual actuarial valuations. The latest independent actuarial valuation of the plan was at 31 December 2016 and was prepared by qualified staff of Willis Towers Watson, who are members of recognised actuarial bodies, using the projected unit credit method. The actuarial valuation indicates that the Group's obligations under the defined benefit retirement plan are fully (2015: 100%) covered by the plan assets held by the trustees.

18 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES (Continued)

(a) Defined benefit retirement plan (Continued)

The plan exposes the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk. Information about the plan is disclosed below:

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2016	2015
	HK$'000	*HK$'000*
Present value of wholly or partly funded obligations	**(35,312)**	(41,039)
Fair value of plan assets	**30,844**	36,709
	(4,468)	(4,330)

The plan assets do not include any share issued by the Company or any property occupied by the Group.

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expect to pay HK$667,000 in contributions to defined benefit retirement plan in 2017.

(ii) Plan assets consist of the following:

	2016	2015
Equity securities	**39.5%**	34.3%
Fixed deposits	**60.5%**	65.7%
Total	**100.0%**	100.0%

All of the equity securities have quoted prices in active markets.

18 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES (Continued)

(a) Defined benefit retirement plan (Continued)

(iii) Movements in the present value of the defined benefit obligations:

	2016 HK$'000	2015 HK$'000
At 1 January	**41,039**	40,434
Remeasurements:		
– Actuarial (gain)/loss arising from changes in financial assumptions	**(767)**	371
– Actuarial (gain)/loss arising from changes in experience	**(196)**	628
– Actuarial loss arising from change in demographic assumptions	**16**	–
	(947)	999
Current service cost	**1,331**	1,326
Interest cost	**552**	559
Benefits paid by the plan	**(4,647)**	(4,749)
Scheme amendments	**–**	2,470
Curtailments	**(63)**	–
Settlement	**(1,953)**	–
At 31 December	**35,312**	41,039

(iv) Movements in plan assets:

	2016 HK$'000	2015 HK$'000
At 1 January	**36,709**	41,854
Interest income	**493**	569
Return less than discount rate	**(298)**	(699)
Benefits paid by the plan	**(4,647)**	(4,749)
Administrative expenses paid	**(117)**	(305)
Contributions paid to the plan	**657**	39
Settlement	**(1,953)**	–
At 31 December	**30,844**	36,709

18 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES (Continued)

(a) Defined benefit retirement plan (Continued)

(v) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2016	2015
	HK$'000	*HK$'000*
Current service cost	**1,331**	1,326
Past services cost of scheme amendments	**–**	2,470
Past services cost of curtailments	**(63)**	–
Net interest/(income) on net defined benefit liability/(asset)	**59**	(10)
Administrative expenses paid	**117**	305
Total amounts recognised in profit or loss	**1,444**	4,091
Actuarial (gain)/loss	**(947)**	999
Return on plan assets, excluding interest income	**298**	699
Total amounts recognised in other comprehensive income	**(649)**	1,698
Total defined benefit costs	**795**	5,789

The current service cost, the net income on defined benefit liability/asset and the administrative expenses paid are recognised in the following item in the consolidated statement of profit or loss:

	2016	2015
	HK$'000	*HK$'000*
Administrative expenses	**1,444**	4,091

18 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES (Continued)

(a) Defined benefit retirement plan (Continued)

(vi) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

	2016	2015
Discount rate	**1.8%**	1.5%
Long-term salary increase rate	**3.5%**	3.5%

The below analysis shows how the net defined benefit liability would have (increased)/decreased as a result of 0.25% change in the significant actuarial assumptions:

	(Increase) in 0.25%		**Decrease in 0.25%**	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Discount rate	**713**	893	**(735)**	(921)
Future salary	**(684)**	(821)	**666**	801

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(b) Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

19 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2016 HK$'000	2015 HK$'000
Property development		
Properties under development for sale	**326,518**	241,066
Completed properties held for sale	**150,429**	235,191
	476,947	476,257
Other operations		
Trading stocks	**1,596**	1,130
Spare parts and consumables	**1,462**	1,255
Work in progress	**7,157**	14,264
	10,215	16,649
	487,162	492,906

The above properties are situated in Hong Kong and held under medium-term leases.

The amount of properties under development for sale expected to be completed after more than one year is HK$Nil (2015: HK$241,066,000). All of the other inventories are expected to be recovered within one year.

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2016 HK$'000	2015 HK$'000
Carrying amount of inventories sold	**87,224**	531,507

20 TRADE AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	332,960	151,041
Less: allowance for doubtful debts	(2,151)	(2,070)
	330,809	148,971
Cash held by stakeholders	457,828	18,078
Other receivables and prepayments	64,720	46,441
Amount due from a joint venture	412	–
	853,769	213,490

All of the trade and other receivables except for instalment receivables of HK$219,596,000 (2015: HK$88,643,000) are expected to be recovered or recognised as expense within one year. Included in the trade and other receivables are amounts due from related companies of HK$72,405,000 (2015: HK$37,111,000) which are unsecured, interest-free and have no fixed terms of repayment.

The amount due from a joint venture is unsecured, interest-bearing at a rate to be agreed by the Group and the joint venture partner and have no fixed terms of repayment. During the year and as at 31 December 2016, the balance did not bear any interest.

(a) Ageing analysis

Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis based on due date at the end of the reporting period:

	2016 HK$'000	2015 HK$'000
Current	289,963	125,133
1 to 3 months overdue	32,303	19,566
More than 3 months but less than 12 months overdue	8,320	4,265
More than 12 months overdue	223	7
	330,809	148,971

Trade debtors are due ranging from 7 to 45 days from the date of billing. Debtors with balances that are more than 60 days overdue are generally required to settle all outstanding balances before any further credit is granted. Further details on the Group's credit policy are set out in note 26(a).

20 TRADE AND OTHER RECEIVABLES (Continued)

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 1(k)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016 **HK$'000**	2015 HK$'000
At 1 January	**2,070**	–
Impairment losses recognised	**90**	2,070
Uncollectible amount written off	**(9)**	–
At 31 December	**2,151**	2,070

At 31 December 2016, the Group's trade debtors of HK$2,151,000 (2015: HK$2,070,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that recovery of the receivables is considered doubtful. Consequently, specific allowances for doubtful debts of HK$2,151,000 (2015: HK$2,070,000) were recognised.

(c) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	2016 **HK$'000**	2015 HK$'000
Neither overdue nor impaired	**289,963**	125,133
1 to 3 months overdue	**32,303**	19,566
More than 3 months but less than 12 months overdue	**8,320**	4,265
More than 12 months overdue	**223**	7
	40,846	23,838
	330,809	148,971

20 TRADE AND OTHER RECEIVABLES (Continued)

(c) Trade debtors that are not impaired (Continued)

Receivables that were neither overdue nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were overdue but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance 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.

21 OTHER FINANCIAL ASSETS

	2016 HK$'000	2015 HK$'000
Financial assets designated at fair value through profit or loss	**20,000**	90,375

During the year ended 31 December 2016, the Group purchased equity-linked notes and index-linked note in the total amount of HK$20,000,000 (2015: HK$100,000,000). These investment were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss with subsequent changes in fair values recognised in profit or loss. During the year ended 31 December 2016, the Group had redeemed all these investment purchased in the year 2015.

22 CASH AND BANK BALANCES

(a)

	2016 HK$'000	2015 HK$'000
Deposits with banks and other financial institutions	**939,251**	2,373,684
Cash at bank and in hand	**10,198**	18,173
Cash and bank balances in the consolidated statement of financial position	**949,449**	2,391,857
Less: Bank deposits with maturity over three months at acquisition	**–**	(283,800)
Cash and cash equivalents in the consolidated cash flow statement	**949,449**	2,108,057

22 CASH AND BANK BALANCES (Continued)

(a) (Continued)

Included in cash and bank balances are the following amounts denominated in a currency other than Hong Kong dollars:

		2016 '000		2015 '000
United States dollars	**USD**	**4**	USD	9
Renminbi	**RMB**	**44**	RMB	1

(b) Major non-cash transactions

During the year ended 31 December 2016, the Group has payable in relation to additions of properties under development for sale of HK$35,892,000 (2015: HK$16,891,000) and additions of available-for-sale securities of HK$61,352,000 (2015: HK$Nil) arising from the redemption of other financial assets upon maturity. These additions have no cash flow impact to the Group.

(c) Disposal of subsidiaries

(i) On 6 October 2016, the Group completed the disposal of its 100% equity interest in HYFCO Travel Group to Miramar Travel for a total consideration of HK$4,587,000. This resulted in a net gain on disposal of subsidiaries of $4,561,000.

(ii) Net assets disposed of:

	2016 ***HK$'000***
Other property, plant and equipment	**439**
Trade and other receivables	**10,042**
Cash and cash equivalents	**2,278**
Trade and other payables	**(12,733)**
Net assets	**26**
Net gain on disposal of subsidiaries	**4,561**
Total consideration	**4,587**

Satisfied by:

	2016 ***HK$'000***
Cash	**4,587**

22 CASH AND BANK BALANCES (Continued)

(c) Disposal of subsidiaries (Continued)

(iii) Analysis of net cash inflow in respect of the disposal of subsidiaries:

	2016 *HK$'000*
Cash consideration received	**4,587**
Cash disposed of	**(2,278)**
	2,309

23 TRADE AND OTHER PAYABLES

All of the trade and other payables except for an amount of HK$11,453,000 (2015: HK$12,492,000) are expected to be settled or recognised as income within one year. Included in the trade and other payables are amounts due to related companies of HK$109,201,000 (2015: HK$178,573,000) which are unsecured, interest-free and repayable within 30 – 45 days or have no fixed terms of repayment.

Included in trade and other payables are trade payables with the following ageing analysis based on due date at the end of the reporting period:

	2016 *HK$'000*	2015 *HK$'000*
Due within 1 month or on demand	**125,562**	205,403
Due after 1 month but within 3 months	**1,341**	1,053
Due after 3 months but within 12 months	**–**	7
More than 12 months	**9**	9
	126,912	206,472

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Tax (recoverable)/payable in the consolidated statement of financial position represents:

	2016 *HK$'000*	2015 *HK$'000*
Provision for Hong Kong Profits Tax for the year	**35,356**	31,890
Provisional Profits Tax paid	**(23,720)**	(5,225)
	11,636	26,665
Balance of Hong Kong Profits Tax payable relating to prior years	**7,478**	148,850
	19,114	175,515

Represented by:

	2016 *HK$'000*	2015 *HK$'000*
Tax recoverable	**(22,174)**	(35,283)
Tax payable	**41,288**	210,798
	19,114	175,515

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Temporary differences from investment properties and other property, plant and equipment	Future benefit of tax losses	Intra-group interest capitalised in properties under development	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	41,763	(5,741)	(2,953)	–	33,069
Charged/(credited) to profit or loss *(note 7(a))*	4,228	4,107	–	(1,588)	6,747
At 31 December 2015 and 1 January 2016	**45,991**	**(1,634)**	**(2,953)**	**(1,588)**	**39,816**
Charged/(credited) to profit or loss:					
– continuing operations *(note 7(a))*	**4,283**	**(976)**	**–**	**1,588**	**4,895**
– discontinued operation	**–**	**103**	**–**	**–**	**103**
At 31 December 2016	**50,274**	**(2,507)**	**(2,953)**	**–**	**44,814**

	2016	2015
	HK$'000	*HK$'000*
Represented by:		
Net deferred tax asset recognised in the consolidated statement of financial position	**(5,248)**	(5,152)
Net deferred tax liability recognised in the consolidated statement of financial position	**50,062**	44,968
	44,814	39,816

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(q), the Group has not recognised the following deferred tax assets in respect of deductible temporary differences and cumulative tax losses as it is not probable that future taxable profits against which the deductible temporary differences and tax losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

	2016		2015	
	Deductible temporary differences/ tax losses	**Deferred tax assets**	Deductible temporary differences/ tax losses	Deferred tax assets
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
(i) Excess of tax written down values over accounting carrying values of other property, plant and equipment	**640**	**106**	752	124
(ii) Tax losses	**92,704**	**15,402**	88,458	14,596
	93,344	**15,508**	89,210	14,720

25 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	**Share capital** *HK$'000* *(note 25(b))*	**Retained profits** *HK$'000*	**Total** *HK$'000*
Balance at 1 January 2015		1,754,801	1,401,473	3,156,274
Changes in equity for 2015:				
Profit for the year		–	15,351	15,351
Other comprehensive income		–	(1,698)	(1,698)
Total comprehensive income		–	13,653	13,653
Dividends approved in respect of the previous year	*10*	–	(199,513)	(199,513)
Dividends declared in respect of the current year	*10*	–	(35,627)	(35,627)
Balance at 31 December 2015 and 1 January 2016		**1,754,801**	**1,179,986**	**2,934,787**
Changes in equity for 2016:				
Loss for the year		**–**	**(13,177)**	**(13,177)**
Other comprehensive income		**–**	**649**	**649**
Total comprehensive income		**–**	**(12,528)**	**(12,528)**
Dividends approved in respect of the previous year	*10*	**–**	**(92,631)**	**(92,631)**
Dividends declared in respect of the current year	*10*	**–**	**(35,627)**	**(35,627)**
Balance at 31 December 2016		**1,754,801**	**1,039,200**	**2,794,001**

25 CAPITAL AND RESERVES (Continued)

(b) Share capital

	2016 Number of shares	2016 HK$'000	2015 Number of shares	2015 HK$'000
Ordinary shares, issued and fully paid:				
At 1 January/31 December	**356,273,883**	**1,754,801**	356,273,883	1,754,801

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(c) Nature and purpose of reserves

(i) Securities revaluation reserve

The securities revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies adopted for the revaluation of securities (see note 1(f)).

(ii) Other capital reserves

The other capital reserves comprise the unrealised profit on inter-company interest capitalised under investment properties.

(d) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was HK$571,935,000 (2015: HK$712,675,000). After the end of the reporting period the directors proposed a final dividend of HK26 cents (2015: HK26 cents) per ordinary share, amounting to HK$92,631,000 (2015: HK$92,631,000) (note 10). This dividend has not been recognised as a liability at the end of the reporting period.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern and ensure that it maintains a healthy capital ratio in order to support its business and provide returns for shareholders.

The Group actively and regularly reviews and manages its capital structure under the policy of prudent financial management. The Group maintains a financially sound capital position and, where appropriate, makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 2015.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limit to any single financial institution. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties which enable management to assess their recoverability and to minimise the exposure to credit risk. In respect of other trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due ranging from 7 to 45 days from the date of billing. Debtors with balances that are more than 60 days overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is not influenced by the individual characteristics of each customer as the Group does not have a certain concentration of credit risk of the total trade and other receivables.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial positions. Except for the financial guarantees given by the Group as set out in note 29, the Group does not provide any other guarantees to third parties which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

(b) Liquidity risk

The treasury functions of the Group is centralised at the head office. Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loan to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash from major financial institutions to meet its liquidity requirements in the short and longer term.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

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

	2016 Contractual undiscounted cash outflow						2015 Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade and other payables	618,253	6,815	2,891	1,747	629,706	629,706	248,816	7,608	3,286	1,598	261,308	261,308

(c) Currency risk

The Group has no significant exposure to foreign currency risk given its large asset base and operational cash flow are primarily denominated in Hong Kong dollars.

(d) Equity price risk

The Group is exposed to equity price change arising from equity investments classified as available-for-sale securities (see note 17) and financial assets designated at fair value through profit or loss (see note 21). All of these investments are listed.

Listed investments held in the available-for-sale securities portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

Financial assets designated at fair value through profit or loss are subject to changes in market prices. The exposure to price changes is managed by closely monitoring the changes in market conditions that may have an impact on the market prices or factor affecting the value of these financial assets.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Equity price risk (Continued)

Sensitivity analysis

At 31 December 2016, it is estimated that an increase/decrease of 10% (2015: 10%) in the market prices of the investments in available-for-sale securities, with all other variables held constant would have increased/decreased the securities revaluation reserve by approximately HK$66,154,000 (2015: HK$82,768,000).

At 31 December 2016, it is estimated that an increase/decrease of 10% in the market prices of the underlying investments of the financial assets designated at fair value through profit or loss, with all other variable held constant would have increased/decreased the profit after tax and retained profits by approximately HK$2,000,000 (2015: HK$9,038,000).

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2015.

(e) Fair value measurement

(i) Financial assets measured at fair value

Fair value hierarchy

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

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

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

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

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair value measurement (Continued)

(i) Financial assets measured at fair value (Continued)

Fair value hierarchy (Continued)

		Fair value measurements as at 31 December 2016 categorised into		
	Fair value at 31 December 2016 *HK$'000*	**Level 1** *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*
Recurring fair value measurements				
Financial assets:				
Available-for-sale securities:				
– Listed	**661,542**	**661,542**	**–**	**–**
Financial assets designated at fair value through profit or loss	**20,000**	**–**	**20,000**	**–**

		Fair value measurements as at 31 December 2015 categorised into		
	Fair value at 31 December 2015 *HK$'000*	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
Recurring fair value measurement				
Financial assets:				
Available-for-sale securities:				
– Listed	827,680	827,680	–	–
Financial assets designated at fair value through profit or loss	90,375	–	90,375	–

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair value measurement (Continued)

(i) Financial assets measured at fair value (Continued)

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of financial assets designated at fair value through profit or loss is based on the pricing model taking into account the market closing prices of the underlying equity securities and/or index, volatilities, correlations and interest rates, which are observable market data, at the end of the reporting period.

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016 and 2015.

27 OPERATING LEASE COMMITMENTS

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016	2015
	HK$'000	*HK$'000*
Within 1 year	**1,564**	5,145
After 1 year but within 5 years	**1,830**	916
	3,394	6,061

The Group leases a number of retail outlets and offices under operating leases. The leases typically run for an initial period of one to three years. Lease payments are usually fixed during the period of the leases. None of the leases includes contingent rentals.

28 CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016	2015
	HK$'000	*HK$'000*
Contracted for	**131,693**	208,307
Authorised but not contracted for	**891**	891
	132,584	209,198

29 CONTINGENT LIABILITIES

Financial guarantees issued

At 31 December 2016, the Company has issued the following guarantees:

(a) guarantees to certain suppliers in respect of granting or giving credit facilities to its wholly-owned subsidiaries; and

(b) guarantees to a bank in respect of banking facilities granted to its wholly-owned subsidiaries.

Under the guarantees, the Company is liable to the amount due from the subsidiaries to these respective parties in the event of any default and its liability shall at no time exceed the sum stated on the letters of guarantee.

At the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued above is the outstanding amount due to the relevant parties by its wholly-owned subsidiaries, being HK$110,000 (2015: HK$645,000).

The Company has not recognised any deferred income in respect of the guarantees issued as its fair value cannot be reliably measured using observable market data and its transaction price was HK$Nil.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to certain of the Company's directors, chief executive and the highest paid employees as disclosed in notes 8 and 9 respectively, is as follows:

	2016	2015
	HK$'000	*HK$'000*
Short-term employee benefits	**5,617**	5,306
Post-employment benefits	**107**	98
	5,724	5,404

Total remuneration is included in "staff costs" (see note 6(a)).

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions

(i) In 1999, the Group entered into a development agreement (the "Agreement") with Henderson Land Development Company Limited ("HLD") and two wholly-owned subsidiaries of HLD ("HLD Sub"), whereby HLD Sub acquired the right to 50% of any proceeds from the future sale of the residential portion of the redevelopment of Metro Harbour View, Kowloon Inland Lot No. 11127 (the "MHV Property") for a consideration of HK$1,500,000,000.

As part of the Agreement, HLD Sub agreed to reimburse the Group 50% of its development expenditures relating to the residential portion of the MHV Property. At 31 December 2016, an amount of HK$268,000 (2015: HK$265,000) remained unpaid and was included in trade and other receivables.

In February 2017, the Group entered into a deed of novation (the "Deed of Novation") with HLD and first HLD Sub and second HLD Sub pursuant to which first HLD Sub transferred and assigned unto second HLD Sub, and second HLD Sub took and assumed all of the rights and obligations of the first HLD Sub under the Agreement subject to the terms and conditions as stated in the Deed of Novation. The Deed of Novation was supplemental to the Agreement.

(ii) In December 2001, a wholly-owned subsidiary of the Company acquired 50% equity interest in 2OK Company Limited ("2OK") which was set up to provide mortgage loans to the residential unit buyers of the MHV Property. HLD through its subsidiaries beneficially owned the remaining 50% equity interest in 2OK at 31 December 2016. During the year, the Group received management and administrative fees in the total of HK$125,000 (2015: HK$150,000) from 2OK. The Group and HLD Sub have made advances to 2OK to finance the latter's mortgage operation and interest was charged on amounts advanced. During the year, the Group received interest amounting to HK$62,000 (2015: HK$38,000) from 2OK. At 31 December 2016, the amount advanced by the Group totalling HK$5,236,000 (2015: HK$1,169,000) is in proportion to the Group's equity interest in 2OK and is unsecured and has no fixed repayment terms.

(iii) In December 2002, the Group appointed a wholly-owned subsidiary of HLD ("HLD Sub A") as the leasing and promotion agent of the commercial arcade of the MHV Property, Metro Harbour Plaza ("MHP"), for an initial term of two years at the remuneration of 5% of the monthly rental income from MHP and such agreement shall thereafter be renewable on the same terms from year to year until terminated by either party by giving three months' prior notice in writing. An amount of HK$2,025,000 (2015: HK$1,903,000) was charged to the Group for the year. At 31 December 2016, an amount of HK$1,020,000 (2015: HK$990,000) remained unpaid and was included in trade and other payables.

As the aforementioned agreement was renewable on the yearly basis until terminated by either party, the Group had monitored the receipt of the funds during the year.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(iv) In May 2006, the Group appointed a wholly-owned subsidiary of HLD ("HLD Sub C") as the main contractor for a fee of 5% on all works relating to the development of Shining Heights, Nos. 220-222 Tai Kok Tsui Road, Kowloon, Hong Kong (the "TKT Property"). The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Group together with the 5% fee shall be subject to a total annual ceiling of HK$16,000,000 up to the period end of 31 March 2009. In September 2009, the prime cost contract extension letter was signed which all the terms and conditions remain unchanged except to extend the period of payment for the respective ceiling of HK$5,500,000 and HK$6,500,000 for the nine months ended 31 December 2009 and for the year ended 31 December 2010 respectively.

During the years ended 31 December 2016 and 2015, there were no change in cost estimates. At 31 December 2016, an amount of HK$2,294,000 (2015: HK$2,294,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

(v) In March 2011, the Group appointed another wholly-owned subsidiary of HLD ("HLD Sub D") as the main contractor for a fee of 5% on all works relating to the development of Green Code at No. 1 Ma Sik Road, Fanling, New Territories, Hong Kong (formerly known as Fanling Sheung Shui Town Lot No. 177) (the "Fanling Property"). The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee shall be subject to the total ceilings of the respective years.

In October 2014, the Group entered into a Fanling Prime Cost Contract Extension Letter with HLD Sub D to extend the period of payment of fees for the respective ceilings of HK$6,800,000 and HK$19,000,000 for the period from 1 June 2014 to 31 December 2014 and for the year ended 31 December 2015 respectively. During the year, as a result of change in the latest cost estimates, an amount of HK$36,266,000 (2015: HK$9,040,000) and HK$1,813,000 (2015: HK$452,000), represented a corresponding adjustment in fees, were credited to the Group in relation to the superstructure work of the development and the 5% fee on all works relating to the development of the Fanling Property. At 31 December 2016, an amount of HK$14,725,000 (2015: HK$131,938,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

(vi) In September 2013, the Group appointed HLD Sub A as the project manager of the development of Hung Hom Inland Lot No. 555, Kowloon, Hong Kong located at the junction of Gillies Avenue South and Bulkeley Street, Hung Hom, Kowloon, Hong Kong (the "Hung Hom Property") for a term of three years commencing from 5 September 2013 in consideration for a fee equivalent to the aggregate of 1% of the construction costs of the Hung Hom Property and other lump sum fees for supplementary services subject to the respective ceilings for the year ended 31 December 2013 of HK$1,300,000, for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 of HK$2,300,000, HK$2,300,000 and HK$600,000 respectively. A total fee of HK$595,000 (2015: HK$1,885,000) was charged to the Group during the year. The balance has been repaid during the year. At 31 December 2015, an amount of HK$2,480,000 remained unpaid and was included in trade and other payables.

Pursuant to the terms of the Hung Hom Project Management Agreement, the appointment of HLD Sub A as project manager expired in September 2016.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(vii) In December 2013, the Group appointed another wholly-owned subsidiary of HLD ("HLD Sub B") as the sales manager of the development of the Hung Hom Property for a term of three years commencing from 1 January 2014 in consideration for a fee of 0.5% of the gross proceeds of sale (but excluding those sale and purchase agreements which were effected by a third party sales agent) subject to the annual ceilings for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 of HK$2,500,000, HK$1,000,000 and HK$1,500,000 respectively. A total fee of HK$38,000 (2015: HK$67,000) was charged to the Group during the year. At 31 December 2016, no amount remained unpaid (2015: HK$Nil). Pursuant to the terms of the Hung Hom Project Sales Management Agreement, the appointment of HLD Sub B as sales manager expired in December 2016.

In January 2017, the Group entered into a letter agreement with HLD Sub B and HLD Sub B continued to act as the sales manager of the Group in respect of the sale and purchase of the remaining residential units of the Hung Hom Property for a further period of one year commencing from 1 January 2017 and ending on 31 December 2017. The aggregate amount of fees receivable by HLD Sub B as remuneration under the appointment shall be subject to a ceiling of HK$1,000,000 for the year ending 31 December 2017.

(viii) In March 2014, the Group as landlord and an indirectly non-wholly owned subsidiary of HLD as tenant agreed to renew their tenancy agreement in respect of certain shops and spaces of MHP. Pursuant to the Tenancy Renewal Agreement, the tenant agreed to take the lease for a term of three years commencing from 1 July 2014 at a monthly rental of HK$470,000 and other ancillary expenses and a turnover rent of 7% (if any) of annual gross turnover of the tenant's business conducted over HK$120,000,000 which shall be payable monthly in arrears. The Group also entered into (i) an External Wall Signage Licence Agreement for three external wall signages at MHP; and (ii) an Entrance Signage Licence Agreement for one signage at the entrance of MHP for a term of three years commencing from 1 July 2014. Total annual licence fees payable under the External Wall Signage Licence Agreement and the Entrance Signage Licence Agreement are HK$22,000 and HK$8,000 respectively. The Tenancy Renewal Agreement and two Licence Agreements are subject to annual caps of respective years.

During the year, an amount of HK$11,635,000 (2015: HK$11,464,000), being aggregate rental and fees receivable under the aforementioned lease and licences, was credited to the Group.

(ix) In August 2014, the Group entered into a letter agreement with HLD Sub B and appointed HLD Sub B as the agent of the Group to lease certain shops and spaces of Miramar Shopping Centre (the "Premises") for the marketing services of the Hung Hom Property for the period from 5 August 2014 to the earlier of 4 April 2015 and the date on which the last residential unit in the Hung Hom Property is sold, subject to the respective ceilings of HK$3,000,000 for the period from 5 August 2014 to 31 December 2014 and HK$1,100,000 for the period from 1 January 2015 to 4 April 2015. The letter agreement expired in April 2015.

In March 2015, the Group entered into a second letter agreement with HLD Sub B and HLD Sub B continued to act as the agent of the Group to lease the Premises for the continuation of the marketing services of the Hung Hom Property for the period from 5 April 2015 to the earlier of 4 July 2015 and the date on which the last residential unit in the Hung Hom Property is sold, subject to the ceiling of HK$1,000,000. The second letter agreement expired in July 2015.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(ix) (Continued)

In July 2015, the Group entered into a third letter agreement with HLD Sub B and HLD Sub B continued to act as the agent of the Group to lease the Premises for the continuation of the marketing services of the Hung Hom Property for the period from 5 July 2015 to the earlier of 4 October 2015 and the date on which the last residential unit in the Hung Hom Property is sold, subject to the ceiling of HK$1,000,000. The third letter agreement expired in October 2015.

No fee has been charged during the year. A total fee of HK$2,558,000 was charged to the Group for the year ended 31 December 2015. At 31 December 2016, an amount of HK$560,000 (2015: HK$596,000) remained unpaid and was included in trade and other payables.

(x) In October 2015, the Group appointed HLD Sub A as the project manager of the comprehensively planned development consisting of residential component together with ancillary supporting facilities at 208 Tung Chau Street, Sham Shui Po, Kowloon, Hong Kong (the "TCS Property" or the "Proposed TCS Development") for a term of three years commencing from 2 November 2015 in consideration for a fee equivalent to the aggregate of 1% of the construction costs of the Proposed TCS Development, subject to the annual ceilings for the years ended 31 December 2015 and 31 December 2016 of HK$1,500,000 and HK$4,100,000, and for the years ending 31 December 2017 and 31 December 2018 of HK$1,600,000 and HK$1,500,000 respectively. A total fee of HK$688,000 (2015: HK$843,000) was charged to the Group during the year. At 31 December 2016, an amount of HK$688,000 (2015: HK$Nil) remained unpaid and was included in trade and other payables.

(xi) In October 2015, the Group appointed HLD Sub C as the main contractor of the Proposed TCS Development for a fee of 5% on all works of the Proposed TCS Development. The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee subject to the annual ceilings for the years ended 31 December 2015 and 31 December 2016 of HK$1,260,000 and HK$19,990,000, and for the years ending 31 December 2017 and 31 December 2018 of HK$16,740,000 and HK$970,000 respectively. In accordance with the contract entered into the Group, an amount of HK$80,595,000 (2015: HK$2,606,000), of which HK$15,955,000 (2015: HK$124,000) being cost of work carried out by the main contractor or the connected persons (as defined in the Listing Rules) of the Company and the 5% fee, was charged by the main contractor for the superstructure work of the development of the TCS Property during the year. At 31 December 2016, an amount of HK$39,283,000 (2015: HK$2,606,000) remained unpaid and was included in trade and other payables.

(xii) In October 2015, the Group appointed HLD Sub B as the sales manager of the Proposed TCS Development for a term of three years commencing from the date of the first initial sale of any residential units of the Proposed TCS Development in consideration of a sales fee of 0.5% of the gross proceeds of sale (but excluding those sale and purchase agreements which were effected by third party sales agent(s)) subject to the annual ceilings for the years ended 31 December 2015 and 31 December 2016 of HK$700,000 and HK$2,000,000, and for the years ending 31 December 2017 and 31 December 2018 of HK$600,000 and HK$200,000 respectively. A total fee of HK$216,000 (2015: HK$Nil) was charged to the Group during the year. At 31 December 2016, an amount of HK$96,000 (2015: HK$Nil) remained unpaid and was included in trade and other payables.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(xiii) In October 2015, the Group entered into a letter agreement with HLD Sub B and appointed HLD Sub B as the agent of the Group to lease the Premises for the marketing services of the TCS Property for the period from 5 November 2015 to the earlier of 4 January 2017 and the date on which the last residential unit in the TCS Property is sold, subject to the respective ceilings of HK$2,000,000 for the period from 5 November 2015 to 31 December 2015 and HK$3,600,000 for the period from 1 January 2016 to 4 January 2017. The letter agreement expired in January 2017.

In January 2017, the Group entered into a second letter agreement with HLD Sub B and HLD Sub B continued to act as the agent of the Group to lease the Premises for use as show flats and sales office for the sale of the residential units of the TCS Property for the period from 5 January 2017 to the earlier of 4 May 2017 and the date on which the last residential unit in the TCS Property is sold, subject to the ceiling of HK$1,700,000.

A total fee of HK$3,092,000 (2015: HK$1,776,000) was charged to the Group during the year. At 31 December 2016, an amount of HK$1,920,000 (2015: HK$1,677,000) remained unpaid and was included in trade and other payables.

(xiv) During the year, the Company entered into a sale and purchase agreement with Miramar Travel, being a related party of the Group, to dispose of the Group's entire interest in HYFCO Travel Group. Further details are disclosed in note 5.

(xv) At 31 December 2016, HLD, a substantial shareholder (as defined in the Listing Rules) of the Company is interested in approximately 33.41% (2015: 33.41%) of the total number of issued shares of the Company.

Dr. Lee Shau Kee, being a director of the Company, is deemed to have been interested in the above transactions as a deemed controlling shareholder of HLD.

To the extent the above transactions constituted connected transactions (as defined in the Listing Rules), the Group had complied with the relevant requirements under Chapter 14A of the Listing Rules.

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of notes 30(b)(v), (vi), (vii), (viii), (ix), (x), (xi), (xii), (xiii) and (xiv) above constitute connected transactions and/or continuing connected transactions (as defined in Chapter 14A of the Listing Rules). The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph headed "Connected Transactions" in the Report of the Directors as set out in the Company's annual report for the year ended 31 December 2016.

31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 HK$'000	2016 HK$'000	2015 HK$'000	2015 HK$'000
Non-current assets					
Interest in subsidiaries	14		**4,139,865**		4,423,641
Interest in associate			**2,988**		2,988
			4,142,853		4,426,629
Current assets					
Trade and other receivables		**9,126**		6,555	
Cash and bank balances		**982**		1,051	
		10,108		7,606	
Current liabilities					
Amounts due to subsidiaries		**1,345,262**		1,486,860	
Trade and other payables		**9,230**		8,258	
		1,354,492		1,495,118	
Net current liabilities			**(1,344,384)**		(1,487,512)
Total assets less current liabilities			**2,798,469**		2,939,117
Non-current liability					
Net employee retirement benefits liabilities			**4,468**		4,330
NET ASSETS			**2,794,001**		2,934,787
CAPITAL AND RESERVES	25(a)				
Share capital			**1,754,801**		1,754,801
Reserves			**1,039,200**		1,179,986
TOTAL EQUITY			**2,794,001**		2,934,787

Approved and authorised for issue by the board of directors on 17 March 2017.

Dr. Lam Ko Yin, Colin
Chairman

Li Ning
Director

32 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 10.

33 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to the disclosure requirement in respect of the discontinued operation set out in note 5 to the financial statements. In addition, the comparative figures in the consolidated statement of profit or loss have been restated as if the operation discontinued during the current year had been discontinued at the beginning of the prior period.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements as below.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI") as follows:

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's policies set out in notes 1(f) and 1(k). This change in policy will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, expect that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

HKFRS 9, Financial instruments (Continued)

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

HKFRS 15, Revenue from contracts with customers

Under HKFRS 15, revenue from sale of goods or provision of services will be recognised when the customer obtains control of the promised goods or service in the contract. The Group is assessing the impact of the adoption of HKFRS 15 and based on its initial assessment it is expected that its adoption may result in a change of the timing of recognition of revenue arising from sale of completed properties.

HKFRS 16, Leases

In respect of accounting of leases, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently as disclosed in note 1(j).

Under HKFRS 16, lessees will account for all leases in a similar way to current finance lease accounting. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for certain properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 27, at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$3.4 million. It is expected that a majority of the future minimum lease payments will need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted.

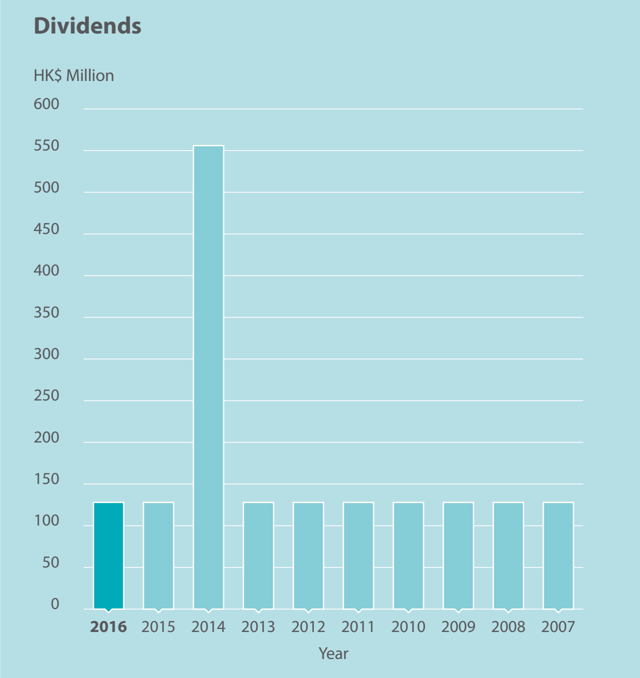
As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

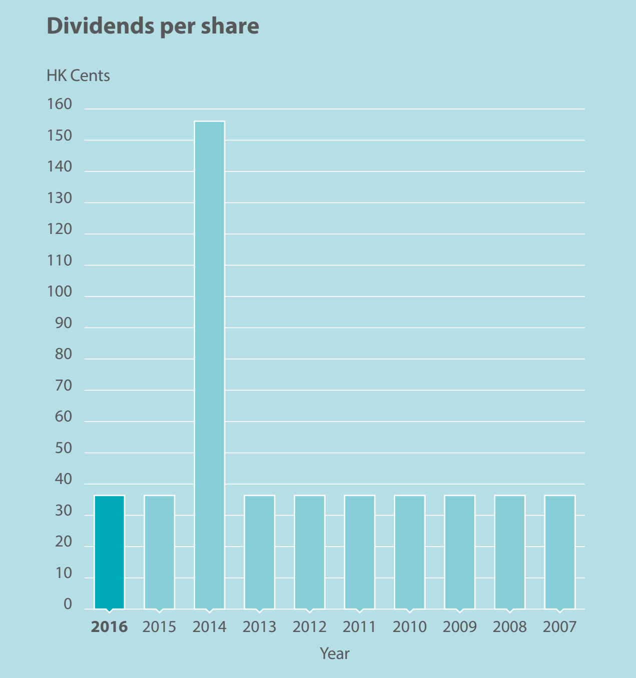
FIVE YEARS' SUMMARY OF ASSETS AND LIABILITIES

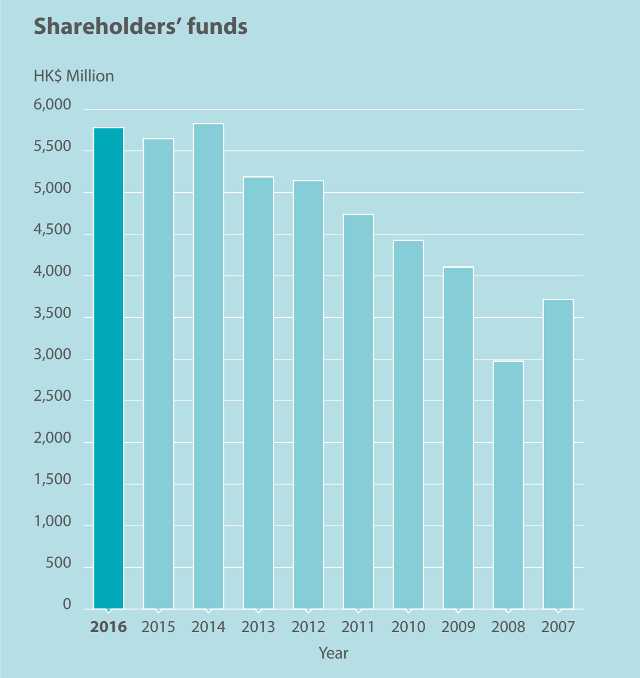
Year	2012 *HK$ Million*	2013 *HK$ Million*	2014 *HK$ Million*	2015 *HK$ Million*	**2016** ***HK$ Million***
Investment properties, other property, plant and equipment and leasehold land	1,304	1,367	1,991	2,106	**2,151**
Interest in associates	22	17	14	11	**10**
Interest in a joint venture	–	–	–	–	**1,355**
Properties under development for sale	2,361	2,822	843	241	**327**
Investments	716	405	523	918	**682**
Deferred tax assets	7	14	6	5	**5**
Other assets	1,154	3,788	3,701	2,893	**1,986**
Total assets	5,564	8,413	7,078	6,174	**6,516**
Total liabilities	421	3,226	1,255	522	**726**
Net assets employed	5,143	5,187	5,823	5,652	**5,790**

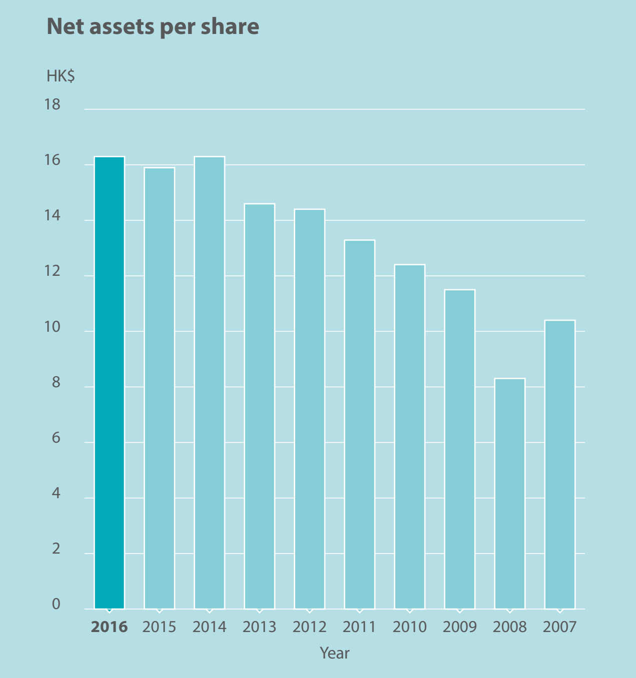
TEN YEARS' FINANCIAL SUMMARY

Year		2007	2008	2009	2010	2011	2012	2013	2014	2015	**2016**
Revenue											
– Continuing operations	*HK$M*	513	367	1,990	754	485	475	311	3,390	974	**502**
– Discontinued operation		160	155	149	158	150	141	129	117	94	**60**
	HK$M	673	522	2,139	912	635	616	440	3,507	1,068	**562**
Profit/(loss) attributable to shareholders											
– Continuing operations	*HK$M*	391	(523)	1,094	481	562	396	296	1,040	203	**245**
– Discontinued operation		(2)	(4)	1	2	3	1	(3)	(9)	(10)	**(8)**
	HK$M	389	(527)	1,095	483	565	397	293	1,031	193	**237**
Dividends	*HK$M*	128	128	128	128	128	128	128	556	128	**128**
Shareholders' funds	*HK$M*	3,713	2,973	4,101	4,425	4,729	5,143	5,187	5,823	5,652	**5,790**
Earnings/(loss) per share	*HK Cent*	109.2	(147.9)	307.5	135.6	158.6	111.5	82.4	289.5	54.1	**66.4**
Dividend per share	*HK Cent*	36.0	36.0	36.0	36.0	36.0	36.0	36.0	156.0	36.0	**36.0**
Dividend cover	*Times*	3.0	–	8.5	3.8	4.4	3.1	2.3	1.9	1.5	**1.8**
Return/(loss) on equity	*%*	10.5	(17.7)	26.7	10.9	12.0	7.7	5.7	17.7	3.4	**4.1**
Net assets per share	*HK$*	10.4	8.3	11.5	12.4	13.3	14.4	14.6	16.3	15.9	**16.3**


Dividends
HK$ Million
600
550
500
450
400
350
300
250
200
150
100
50
0
2016 2015 2014 2013 2012 2011 2010 2009 2008 2007
Year


Dividends per share
HK Cents
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
2016 2015 2014 2013 2012 2011 2010 2009 2008 2007
Year


Shareholders' funds
HK$ Million
6,000
5,500
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
2016 2015 2014 2013 2012 2011 2010 2009 2008 2007
Year


Net assets per share
HK$
18
16
14
12
10
8
6
4
2
0
2016 2015 2014 2013 2012 2011 2010 2009 2008 2007
Year

GROUP PROPERTIES

As at 31 December 2016

1. PROPERTY UNDER DEVELOPMENT

Location	Lot No.	Site area *(sq.m.)*	Gross floor area *(sq.m.)*	Group's interest *(%)*	Intended use
Harbour Park 208 Tung Chau Street (formerly known as 204-214 Tung Chau Street)	NKIL 48, s.B. R.P., s.B.ss.1R.P., R.P., s1& sH	614	5,016	100	Commercial and residential
Castle Peak Road – Castle Peak Bay, Area 48 Tuen Mun, New Territories	Tuen Mun Town Lot No. 547	15,400	61,600	50	Residential

2. PROPERTIES HELD FOR SALE

Location	Lot No.	Saleable floor area *(sq.m.)*	Group's interest *(%)*	Existing use
METRO6 121 Bulkeley Street	Hung Hom I.L. No.555	232*	100	Residential
Green Code 1 Ma Sik Road Fanling	F.S.S.T.L. 177 (S.T.T. 1364(N))	670*	100	Residential
The Spectacle 8 Cho Yuen Street Yau Tong	Yau Tong Inland Lot No. 38	175*	100	Residential

3. PROPERTIES HELD FOR INVESTMENT

Location	Lot No.	Gross floor area *(sq.m.)*	Lease expiry *(year)*	Existing use
Metro Harbour Plaza 8 Fuk Lee Street Tai Kok Tsui	KIL 11127 RP	23,549	2047	Commercial arcade
METRO6 121 Bulkeley Street	Hung Hom I.L. No.555	932	2061	Commercial arcade

3. PROPERTIES HELD FOR INVESTMENT (Continued)

Location	Lot No.	Gross floor area *(sq.m.)*	Lease expiry *(year)*	Existing use
Green Code 1 Ma Sik Road Fanling	F.S.S.T.L. 177 (S.T.T. 1364(N))	8,610	2060	Commercial arcade
Shining Heights 83 Sycamore Street	KIL 11159	2,469	2054	Commercial arcade
The Spectacle 8 Cho Yuen Street Yau Tong	Yau Tong Inland Lot No. 38	2,300	2047	Commercial arcade
20 Tin Dai Yan Road Chung Uk Tsuen Hung Shui Kiu	Lot Nos. 3039A, 3039RP & 3042 in DD 124 Hung Shui Kiu	1,912	2047	Godown

4. OTHER PROPERTIES

Location	Lot No.	Site area *(sq.m.)*	Lease expiry *(sq.m.)*	Group's interest *(%)*	Description
98 Tam Kon Shan Road Ngau Kok Wan North Tsing Yi	Tsing Yi Town Lot No. 102	19,740	2047	100	Shipyard and office
Mui Wo	DD 2 Lot Nos. 614 RP, 619 Sec. B, C and RP	4,233	2047	100	Agricultural land
Mui Wo	DD 2 Lot Nos. 431-487, 569 and 635-637	28,606	2047	50	Agricultural land
Mui Wo	DD 2 Lot Nos 498-499, and 588-591	849	2047	100	Agricultural land

* The area represents saleable floor area of unsold units at 31 December 2016.

HARBOUR PARK
海柏匯

208 Tung Chau Street, Kowloon
(formerly known as 204-214 Tung Chau Street)
九龍通州街208號
(前稱通州街204-214號)

With a total gross floor area of approximately 55,000 sq. ft., Harbour Park is a 26-storeys building and it comprises 161 residential units. The sale of the project had been launched in January 2016 and received good response. An accumulated total of 145 residential units have been sold up to the end of 2016 and there are 16 unsold units.

「海柏匯」總樓面面積約五萬五千平方呎，該物業為樓高二十六層，共一百六十一個住宅單位。該項目已於二零一六年一月開售，買家反應良好。截至二零一六年年底已累計售出一百四十五個住宅單位，尚餘十六個單位未出售。

METRO6
城中滙

121 Bulkeley Street, Kowloon on Hung Hom Inland Lot No. 555

位於紅磡內地段第五百五十五號，九龍寶其利街一百二十一號

The residential-cum-commercial tower provides a total gross floor area of approximately 56,000 sq. ft. and comprises 95 residential units. During the year, 89 accumulated residential units had been sold, and there are 6 unsold units.

該商住物業興建九十五個住宅單位，總樓面面積約五萬六千平方呎。年內，已累計售出八十九個住宅單位，尚餘六個單位未出售。

GREEN CODE
逸峯

No. 1 Ma Sik Road, Fanling, New Territories

新界粉嶺馬適路一號

The sale of the Group's Green Code is in progress. An accumulated total of 721 residential units have been sold as at the end of 2016, and there are 7 unsold units.

集團出售「逸峯」正進行中。於二零一六年年底，累計售出七百二十一個住宅單位，尚餘七個單位未出售。


GREEN CODE
逸峯